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RENOVATION OF THE PENTAGON COMPLEX

(101-58)

HEARING

BEFORE THE

SUBCOMMITTEE ON
PUBLIC BUILDINGS AND GROUNDS

OF THE

COMMITTEE ON
PUBLIC WORKS AND TRANSPORTATION
HOUSE OF REPRESENTATIVES

ONE HUNDRED FIRST CONGRESS

SECOND SESSION

MAY 9, 1990

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Committee on Public Works and Transportation
One Hundred First Congress
U.S. House of Representatives
Room 2165, Rayburn House Office Building
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May 7, 1990

HEARING MEMORANDUM

TO: Members, Subcommittee on Public Buildings and Grounds

FROM: Subcommittee Staff

RE: Subcommittee Hearing, Wednesday, May 9, 1990

The Subcommittee on Public Buildings and Grounds will meet on May 9, 1990, at 9:30 a.m. in Room 2253 Rayburn, to hold a hearing on an 11(b) request from Congressman Bustamante, a $1.2 billion repair project for the Pentagon complex, and to receive testimony from local developers on the effect of completing federal construction projects in this area through direct appropriations rather than long-term financing arrangements.

In reviewing the Pentagon renovation, consideration will be given to an 11(b) report on the renovation of the Pentagon; H.R. 4436, legislation to transfer control of the Pentagon Reservation to the Secretary of Defense; and H.R. 4726, legislation to require the Administrator of General Services to renovate the Pentagon Federal Office Building and Complex and to establish a Pentagon Renovation Account within the Federal Buildings Fund.

11(b) REQUEST

Congressman Albert G. Bustamante has requested a study of the need and feasibility of constructing a new Federal building in Laredo, Texas.

RENOVATION OF PENTAGON

Background

The Pentagon Federal Office Building was built in 1942, with construction complete in January, 1943. The Pentagon contains 3.7 million occupiable square feet of space (6.5 million gross) and houses 25,500 personnel. The Pentagon Complex includes the Pentagon, Federal Office Building Number 2 (Marine Corps headquarters), the Pentagon heating and sewage treatment plants, related facilities, and parking areas.

In 1990, the Pentagon will be charged $79.5 million in rent to be paid into GSA's Federal Buildings Fund. This rent is based on what it would cost to rent commercially comparable space for DoD. Operating expenses for the complex will total $37 million, resulting in a net benefit to the fund of $42.5 million. This surplus amount is used to fund the construction and renovation of Federal office buildings elsewhere in the United States. Daily operation of the Pentagon has been delegated to DoD, with the operating funds being transferred from GSA back to DoD.

The Pentagon building is considered structurally sound, but no modernization or renovation has been completed since the building was constructed. The electrical system is undersized for today's automated offices and the plumbing, heating, and air conditioning systems have deteriorated to the point where a replacement is required.

Last year, the Senate Armed Services Committee included in the 1990 defense authorization bill a provision to transfer control of the Pentagon Reservation from GSA to the Secretary of Defense. Members of the Public Works and Government Operations Committees were appointed as conferees for this section. The provision was dropped from the bill with the understanding that if progress was not made to renovate the Pentagon, the provision would be included in the authorization bill this year.

When the President submitted his FY 1991 budget to Congress in February, $47 million was included in the GSA budget to begin the design and renovation of the Pentagon. However, when GSA submitted their 11(b) report on the Pentagon on March 8, the Administration changed its position to request that the DoD have responsibility for the ownership and funding of the renovations.

11(b) Report on Pentagon Renovation

In order to begin the authorization process for the Pentagon Complex, the Public Works Committee passed an 11(b) Resolution on November 17, 1989 which required the Administrator of General Services to submit a study on the need to repair and alter the Pentagon Complex to ensure it's adequacy for meeting the long-term needs of the DoD. On March 8, 1990, GSA submitted the 11(b) report which recommended a $1,220,556,000 modernization project for the Pentagon complex. It further stated that the position of the Administration was that custody, jurisdiction, and control of the Pentagon be transferred to DoD and that DoD have sole responsibility for the funding and execution of the project.

The 12-year project would include the construction of an underground light industrial building extension of 450,000 occupiable square feet and conversion to office space of that amount in the Pentagon building. Also, an increase in building efficiency would be achieved through the addition of 500,000 square feet by the reconfiguration of existing space and 200,000 occupiable square feet by constructing an additional floor on the mezzanine level.

The project consists of three parts. First, the underground light industrial building would be constructed ($99,065,000 estimated construction cost). Second, the Pentagon would be repaired in five phases. Each of the five phases would entail the complete renovation of one corner wedge of the Pentagon building. In addition, exterior and site work would be completed ($945,693,000 estimated construction cost). Finally, concurrent with the modernization, a new heating plant would be constructed ($90,900,000 estimated construction cost). Preliminary estimates of total project costs include $48,731,000 for design and $36,167,000 for supervision costs. Some swing space would be leased to relocate employees out of certain areas of the building during construction.

It is anticipated that design would begin in 1992, with construction completed in 2007.

H.R. 4436 - Pentagon Transfer

On March 29, 1990, Congresswoman Patricia Schroeder introduced, by request of the Administration, H.R. 4436. This bill, which was jointly referred to the Public Works and Armed Services Committees, would transfer the jurisdiction, custody, control and responsibility for the operation of the Pentagon Reservation to the Secretary of Defense. H.R. 4436 is supported by DoD and the Administration. The Senate Armed Services is also strongly supportive of the transfer and has indicated that it would most likely be included in the defense authorization bill this year.

Should the transfer take effect, DoD would no longer pay rent into the Federal Buildings Fund and GSA would no longer pay maintenance costs. After the transfer the DoD would be wholly responsible for the renovation costs. The Department has indicated that a revolving fund would be established into which would be deposited the monies that would have gone to GSA for rent. According to the DoD, over the 13 or 14 years it would take to complete the project, the funds from this account and about $450 million of additional military construction funds would pay for the project. According to GSA, the Federal Buildings Fund would lose $186 million over the period of the renovation if the Pentagon is transferred and $163 million each year after the renovation is completed.

One of the primary reasons DoD wants control of the Pentagon and to do the project itself is a lack of confidence in the continued commitment of GSA to do the project and a fear of more inattention to the building in the future. DoD and the Armed Services Committees cite the lack of attention to the building and have stated that DoD has paid GSA $250 million more in rental payments than GSA has used to operate, maintain and repair the Pentagon. Concern has also been expressed about security precautions during the renovation.

H.R. 4726 - Pentagon Renovation Account

In order to address the concerns raised that GSA may not be provided sufficient funding to renovate the Pentagon Complex, Chairmen Anderson and Bosco and Congressman Hammerschmidt introduced H.R. 4726, a bill to require the Administrator of General Services to renovate the Pentagon Complex. H.R. 4726 establishes a "Pentagon Renovation Account" within the Federal Buildings Fund. The account will be made up of the amounts received by the GSA from DoD for rent of the Pentagon Complex that exceeds the operating expenses.

Based on information provided by the GSA, the surplus rent received by GSA from DoD for the Pentagon can fully fund the renovation of the Pentagon Complex over the period of the renovation. There would be four fiscal years in which additional funds would need to be appropriated or transferred into the account, as follows:

FY 1994	$6 million
FY 1999	$50.3 million
FY 2001	$42.4 million
FY 2003	$35.6 million

However, at the end of the renovation, the account would have a projected balance of $320.7 million ($186.3 million in surplus above expenses + $134.4 million in funds transferred into the account in the 4 years) which would be transferred to the whole Federal Buildings Fund for use in other construction and renovation projects.

PRIVATE SECTOR PANEL OF FEDERAL CONSTRUCTION

The Subcommittee will also receive testimony from a panel of commercial developers concerning their views on the construction program of the GSA. They will testify on the impact of the change of the construction program from lease-purchase to direct funding, whether this change will make any changes in the availability of sites and costs for projects, and recommendations they may have to make this program more cost efficient.

I

101st CONGRESS
2d Session

H. R. 4436

To provide for the transfer of the jurisdiction, custody, control over, and responsibility for the operation of the Pentagon Reservation to the Secretary of Defense.

IN THE HOUSE OF REPRESENTATIVES

March 29, 1990

Mrs. Schroeder (for herself and Mr. Martin of New York) (both by request) introduced the following bill; which was referred jointly to the Committees on Armed Services and Public Works and Transportation

---

A BILL

To provide for the transfer of the jurisdiction, custody, control over, and responsibility for the operation of the Pentagon Reservation to the Secretary of Defense.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. OPERATION AND CONTROL OF THE PENTAGON RESERVATION.

(a) In General.—(1) Chapter 159 of title 10, United States Code, is amended by inserting after section 2673 the following new section:

"§ 2674. Operation and Control of the Pentagon Reservation

"(a) Jurisdiction, custody, and control over, and responsibility for the operation, maintenance, and management of the Pentagon Reservation is transferred, without cost, to the Secretary of Defense (hereinafter the "Secretary").

"(b) The Secretary may appoint military or civilian personnel or contract employees to perform law enforcement and security functions for property occupied, or under the jurisdiction, custody, and control of the Department of Defense located in the National Capital Region. Such individuals—

"(1) may be armed with appropriate firearms required for personal safety and for the proper execution of their duties, whether on Department of Defense property or in travel status, and

"(2) shall have the same powers as sheriffs and constables to enforce the laws, rules, or regulations enacted for the protection of persons and property.

"(c) The Secretary may promulgate such rules and regulations that he deems appropriate to ensure the safe, efficient, and secure operation of the Pentagon Reservation, including parking and traffic rules. Whoever shall violate any rule or regulation promulgated pursuant to this subsection shall be fined not more than $50 or imprisoned not more than 30 days, or both.

"(d) In this section, the term 'Pentagon Reservation' means that area of land (consisting of approximately 280 acres) and improvements thereon, located in Arlington, Virginia, on which the Pentagon Office Building, Federal Building Number 2, the Pentagon heating and sewage treatment plants, and other related facilities are located, including various areas designated for the parking of vehicles.

"(e) The Secretary is authorized to set rates and collect charges (and deposit such receipts into the fund established in subsection (f)), for space, services, protection, maintenance, construction, repairs, alterations, or other facilities provided at the Pentagon Reservation.

"(f)(1) There is hereby established in the Treasury of the United States a revolving fund into which there shall be deposited the following:

"(A) Funds collected by the Secretary for space and services and other items provided an organization or entity using any facility or land on the Pentagon Reservation pursuant to subsection (e).

"(B) All unobligated balances in the Fund established pursuant to Public Law 92-313 that would otherwise have remained available without regard to fiscal year limitations to the Department of Defense under existing inter-agency agreements.

"(2) For fiscal year 1991, the Secretary is authorized to transfer into the fund established by this subsection, from appropriations of the Military Departments and Defense Agencies, amounts equal to the amounts that would otherwise be paid to the General Services Administration for the use of the Pentagon Reservation.

"(3) Monies deposited into the fund shall be available for expenditure for real property management, operation, protection, construction, repair, alteration and related activities for the Pentagon Reservation without regard to fiscal year limitations."

(2) The table of sections at the beginning of such chapter is amended by inserting after the item relating to section 2673 the following new item:

"2674. Operation and control of the Pentagon Reservation."

(b) EFFECTIVE DATE.—Section 2674 of title 10, United States Code, as added by subsection (a), shall take effect on October 1, 1990, or the date of the enactment of this Act, whichever is later.

I

101st CONGRESS
2d Session

H. R. 4726

To require the Administrator of General Services to renovate the Pentagon Federal Office Building and Complex.

IN THE HOUSE OF REPRESENTATIVES

May 3, 1990

Mr. Anderson (for himself, Mr. Bosco, and Mr. Hammerschmidt) introduced the following bill; which was referred to the Committee on Public Works and Transportation

---

A BILL

To require the Administrator of General Services to renovate the Pentagon Federal Office Building and Complex.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 210(f) of the Federal Property and Administrative Services Act of 1949 (40 U.S.C. 490(f)) is amended—

(1) in paragraph (1) by inserting "(which shall be known as the 'Federal Buildings Fund')" after "a fund";

(2) by adding at the end the following new paragraph:

"(7) Pentagon renovation.—

"(A) ESTABLISHMENT OF ACCOUNT.—There is established within the Federal Buildings Fund an account which shall be known as the 'Pentagon Renovation Account'. The account shall be composed of—

"(i) amounts received by the Administrator from the Secretary of Defense for rent of the Pentagon Complex which are in excess of amounts expended by the Administrator for the operation and maintenance of the Pentagon Complex;

"(ii) amounts appropriated into the account; and

"(iii) such other amounts as the Administrator may transfer into the account.

"(B) RENOVATION.—The Administrator shall renovate the Pentagon Complex in accordance with a resolution adopted pursuant to section 7 of the Public Buildings Act of 1959 (40 U.S.C. 606).

"(C) USE OF ACCOUNT.—The Administrator may obligate amounts in the Pentagon Renovation Account only to renovate the Pentagon Complex in accordance with the resolution referred to in subparagraph (B).

"(D) TERMINATION OF ACCOUNT.—The Pentagon Renovation Account shall terminate on the 90th day following the date on which the renovation of the Pentagon Complex is completed in accordance with the resolution referred to in subparagraph (B). On such 90th day, the Administrator shall transfer amounts remaining in the account to the Federal Buildings Fund.

"(E) REPORTS TO CONGRESS.—The Administrator shall submit annual reports to Congress on the funding for, and progress being made in, renovating the Pentagon Complex until the renovation is completed.

"(F) PENTAGON COMPLEX DEFINED.—As used in this paragraph, the term 'Pentagon Complex' means the area of land (consisting of approximately 280 acres) and improvements thereto, located in Arlington, Virginia, on which the Pentagon Federal Office Building, Federal Building Number 2, the Pentagon heating and sewage treatment plants, and other related facilities are located, including parking lots and other parking facilities.".

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Committee on Public Works and Transportation
One Hundred First Congress
U.S. House of Representatives
Room 2165, Rayburn House Office Building
Washington, DC 20515
Telephone: Area Code 202, 225-4472

COMMITTEE RESOLUTION

RESOLVED BY THE COMMITTEE ON PUBLIC WORKS AND TRANSPORTATION OF THE U.S. HOUSE OF REPRESENTATIVES, that pursuant to section 11(b) of the Public Buildings Act of 1959, the Administrator of General Services shall investigate the need and feasibility of repairing and altering the Pentagon Reservation to ensure the adequacy of the Pentagon Reservation for meeting the long-term needs of the Department of Defense and shall submit a report to Congress within 90 days.

Glenn M. Anderson

GLENN M. ANDERSON
Chairman

Dated: November 17, 1989

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COMMITTEE RESOLUTION

RESOLVED BY THE COMMITTEE ON PUBLIC WORKS AND TRANSPORTATION OF THE U.S. HOUSE OF REPRESENTATIVES, that pursuant to section 7 of the Public Buildings Act of 1959, (40 U.S.C. 606), appropriations are authorized for the renovation of the Pentagon Federal Office Building and Complex in Arlington, Virginia, to meet the long-term needs of the Department of Defense, at an estimated maximum construction cost of $1,220,556,000, a report of building project survey for which is attached to, and included in, this resolution. However, the recommendation that the Complex be transferred to, and renovated by, the Department of Defense, is repealed.

Glenn M Anderson
GLENN M. ANDERSON
Chairman

Dated: June 28, 1990

RENOVATION OF THE PENTAGON COMPLEX

WEDNESDAY, MAY 9, 1990

U.S. House of Representatives,
Subcommittee on Public Buildings and Grounds,
Committee on Public Works and Transportation,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:30 a.m. in room 2253 Rayburn House Office Building, Hon. Douglas H. Bosco [chairman of the subcommittee] presiding.

Mr. Bosco. The Subcommittee on Public Buildings and Grounds will please come to order.

The subcommittee will examine several critical issues relating to the Pentagon Reservation and its future. We'll hear from the Honorable Richard G. Austin, who I'm happy to say passed with flying colors his committee test in the Senate. I'm sure he will be confirmed shortly. And we are pleased to have Mr. David Cooke with the Office of the Secretary of Defense with us this morning.

The last several years the subcommittee has been concerned about whether or not Federal construction is being done in a safe and economic way and in a way that is as efficient as construction in private industry. Accordingly, we will have several witnesses from the private sector provide us with their expert opinion on this issue as well. I look forward to hearing the testimony of our witnesses today.

I would first like to call on Congressman Hammerschmidt, our ranking minority member on the Full Committee.

Mr. Hammerschmidt. Thank you very much, Mr. Chairman. As you've stated, this subcommittee is meeting today to consider whether GSA or DOD should have control and custody of the Pentagon Reservation. This issue came to our attention last year when several members of this committee were appointed as conferees on a provision of the Senate Defense Authorization Bill which provided for a transfer of control from GSA to the Secretary of Defense.

The question of the transfer has been driven by an estimated $1.2 billion renovation and modernization project needed at the Pentagon. One area that seems not to be in dispute is the need for such a project since no major renovation has taken place since the building was constructed. And although the building has been neglected in the past, I believe there is a clear commitment to proceed with a much needed renovation.

So in order to demonstrate that commitment, I have co-sponsored along with you, Mr. Chairman, and Chairman Anderson, H.R. 4726, which would require the Administrator of GSA to renovate the Pentagon. The bill would establish a separate account within the

Federal Buildings Fund into which all Pentagon rent payments would be deposited and devoted solely to the renovation of the project.

This hearing today will give us the opportunity to further explore the project itself as well as the question of whether GSA or DOD should have the ultimate control of the building and the renovations. Testimony received today will be extremely useful as we make decisions on this issue in the near future.

And then on another subject, Mr. Chairman, I welcome Congressman Bustamante, our colleague from Texas, who is going to present testimony in support of a federal housing study for Laredo, Texas which he has requested that we consider.

I know to close the committee hearings, Mr. Chairman, you also have a panel of noted local developers who will testify regarding the construction of Federal buildings in the Washington region and how the method of acquiring those buildings affects development opportunities for the Government.

I appreciate the opportunity to give my opening statement early because I have another subcommittee meeting. Thank you very much.

Mr. Bosco. Thank you, Mr. Hammerschmidt. I would now like to call on the Chairman of our full Committee, Congressman Anderson of California.

The CHAIRMAN. Thank you, Doug. I would like to thank our subcommittee Chairman, Mr. Bosco, for scheduling this hearing on a subject that is of great concern to all of us, the renovation of the Pentagon Federal office building and complex.

No one debates the fact that the Pentagon needs to be renovated. The building and systems are almost 50 years old. As someone who has been involved in the construction business for almost the same period of time, and I am well aware of the life expectancy of these systems, and it is well past time to renovate most of these systems. Similarly, we cannot expect our Federal employees to work in the existing deplorable conditions forever.

However, I do have serious concerns about having this Federal office building transferred from General Services Administration to the Department of Defense in order to have the DOD perform the renovations.

Now, I understand the DOD perspective, and if I were in their position I might try and do the same thing. They get a prime piece of real estate, their renovation costs are equal to their projected rent costs, and they wouldn't have to pay any rent in the future. As a businessman, I'd like that type of a deal for my company. However, this committee must look at the broader Federal interest, not solely one tenant in one building.

The Pentagon complex is not unique and if there are problems with the operation, maintenance, and renovation of the facility, then maybe we need to address the management of all Defense Department facilities under GSA's jurisdiction.

Since it is this committee's responsibility for looking at the whole public building process, I have real concerns about General Service's position on the transfer of the Pentagon. Why give up an asset important to the well-being of the Federal Buildings Fund? Either one of two things has happened: (1) either the General Services Administration is unable to manage its inventory and make decisions in a businesslike manner; or (2) General Services lost this fight, not based on the economics of the project, but on the politics of turf at OMB. If the former is the case, this subcommittee should conduct an immediate review of General Services' operations. If the latter, then this committee should move to protect General Services' public buildings program.

As I stated earlier, I am committed to renovating the Pentagon. Last week Congressman Bosco, Congressman Hammerschmidt, and I introduced H.R. 4726 to require General Services to renovate the Pentagon. We're trying to guarantee both the General Services' commitment and funding to accomplish the full renovation. We don't want the priorities to change when the job is half done. H.R. 4726 will set up an account within the Federal Buildings Fund which over the length of the project will fully fund the renovation.

The General Services Administration by law is responsible for the well-being of the Pentagon. We should make sure that General Services lives up to that obligation and not allow important decisions on the Pentagon to be made based on a power play.

The renovation of the Pentagon should be started by the proper Federal agency—the General Services Administration. Thank you, Mr. Chairman.

Mr. Bosco. Thank you very much, Chairman Anderson.

Now, I would like to call on a person who is gaining fame in our subcommittee for his eloquent opening statements, Mr. Petri.

Mr. Petri. I would ask unanimous consent that my full statement be included in the record.

As has been noted, the primary focus of this morning's hearing is to consider the renovation and modernization of the Pentagon, and whether control of the Pentagon should be transferred from GSA to DOD. Last year the Senate included transfer provisions in the Defense Authorization Bill. The position of the Administration is to support the transfer of the Pentagon, which would mean that the modernization project would be funded with Defense Department funds. During the Defense Authorization Conference last year, I supported transferring the Pentagon to the Secretary of Defense.

This morning I look forward to learning more about the renovations needed at the Pentagon and hearing the views of our witnesses, Dick Austin from GSA, and David Cooke from the Defense Department.

Mr. Bosco. Thank you, Mr. Petri.

[Mr. Petri's prepared statement follows:]

Hon. Thomas E. Petri
Subcommittee on Public Buildings and Grounds
May 9, 1990

Mr. Chairman, the primary focus of our hearing this morning is to consider the renovation and modernization of the Pentagon reservation and whether control of the Pentagon should be transferred from GSA to DOD. Last year, the Senate included transfer provisions in the defense authorization bill. Surprisingly, this was one of the last issues to be resolved in the conference. It was agreed that the provision would not be included at that time in order to allow the committees of jurisdiction time to consider the repair project and the question of the transfer.

Virtually no major renovations have taken place since the Pentagon was constructed in the 1940's, and the original building systems are obsolete and not adequate to meet today's modern office needs. In addition, much of the heating plant is not operational and construction of a new plant is proposed. Preliminary cost estimates total over $1.2 billion.

I would note that the position of the Administration is to support the transfer of the Pentagon, which would mean that the modernization project would be funded with Defense Department funds. Legislation has also been introduced which would set up a separate account within GSA's Federal Buildings Fund into which Pentagon rent would be deposited and set aside to fund the renovation project. Both plans will be investigated today.

During the defense authorization conference last year, I supported transferring the Pentagon to the Secretary of Defense. This morning I look forward to learning more about the renovations needed at the Pentagon and hearing the views of our witnesses--Dick Austin from GSA and David Cooke from the Defense Department.

I want to welcome our colleague from Texas, Albert Bustamante, who will testify in support of a federal housing study in Laredo, Texas. We will also hear from a panel of private developers who will present their views as to the effect within their industry and the federal government of funding the construction of federal buildings in this area through direct appropriations rather than long-term financing arrangements.

[I ask unanimous consent that an opening statement from the Ranking Minority Member of the Full Committee, John Paul Hammerschmidt, be included in the record at this point...]

Thank you, Mr. Chairman, and I yield back to you.

Mr. Bosco. All right. We'll now begin our discussion of the Pentagon. Let's see, who's on the first panel here? Why don't we have the first panel come up then—Mr. Austin and Mr. David Cooke.

Dick, I'd like to reiterate for the entire subcommittee how pleased we are that you did so well in your Senate confirmation hearings. All of us have grown very fond of you and pleased to work with you and, hopefully, the Senate will be expeditious in its action so that for the first time in many years we can get on with a plan that makes sense with the Federal Building Program.

Mr. Austin. Thank you, Mr. Chairman.

Mr. Bosco. I'm happy to receive your testimony.

TESTIMONY OF RICHARD G. AUSTIN, ACTING ADMINISTRATOR, GENERAL SERVICES ADMINISTRATION AND DAVID O. COOKE, DIRECTOR, ADMINISTRATION AND MANAGEMENT, OFFICE OF THE SECRETARY OF DEFENSE

Mr. Austin. Good morning, Mr. Chairman and members of the subcommittee, Chairman Anderson. Thank you for the opportunity to appear before you regarding plans to transfer custody and control of the Pentagon and provide for its renovation and its modernization. I would like to begin by briefly summarizing the events of the past two years and the renovation and modernization project proposed for the Pentagon complex. Then I will address, if I may, H.R. 4726, which was introduced last week.

The Pentagon is a unique and historic structure. It was built during World War II in an unprecedented and massive construction project. Due to its historic and architectural significance, the Pentagon is considered to be eligible for the National Register of Historic Places. Today, although the building is structurally sound, it needs major renovations to update its mechanical, electrical, and plumbing systems, relieving overcrowding, and reconfiguring space to meet the Department of Defense's organizational requirements. The Pentagon is a valuable real property asset, and both the Department of Defense and GSA are committed to ensuring its protection as well as its preservation.

Last year, in the Conference Report accompanying Public Law 101-189, the Department of Defense Authorization Act for Fiscal Year 1990, GSA was instructed to consult with DOD and submit a detailed plan for the completion of the renovation of the Pentagon.

By separate action of the House Public Works and Transportation Committee on November 17, 1989, GSA was also directed to submit a report of building project survey, commonly known as an 11(b) Report, regarding the need and feasibility of repairing and altering the Pentagon to meet the long-term needs of the Department of Defense.

In response to the direction of Congress, GSA worked closely with the Department of Defense to develop a comprehensive plan for the Pentagon Renovation Project. We fundamentally agree on the estimated cost and the scope of the project. As outlined in our report which was submitted in March, we have developed a proposal for new construction and renovation. It is the position of GSA and the Department of Defense that the 11(b) Report fills the requirements of submitting a detailed plan.

I would ask permission, Mr. Chairman, to submit for the record both the 11(b) and the Pentagon Renovation Concept paper.

Briefly, the proposal consists of three parts: The first part proposes the construction of a new service building as an extension to the Pentagon. This would provide 450,000 square feet extension to allow the consolidation of logistical support activities, such as the print shop and laboratories, now housed in the Pentagon itself. Light industrial functions and motorized vehicles would be eliminated from the main building, and loading docks would be removed from the south face of the building. The extension would be connected to the Pentagon building by underground tunnel and could also be accessed at ground level.

The second part of the proposal addresses the renovation and modernization of the Pentagon building itself. This work would be accomplished in five phases, each involving the complete renovation of one corner wedge of the Pentagon building, complete new electrical, heating, ventilation, air conditioning and life safety systems would be installed. In accordance with modern office standards, elevators and escalators would be installed to replace the system of ramps now utilized in the facility. The renovation of the Pentagon building would also make available more than one million additional occupied square feet in that building that can be used as office space. A portion of that space will be used to alleviate overcrowding in the Pentagon, and the remainder would be used to house Defense activities now located in leased space. It is expected that the renovation and modernization project will allow 3,000 to 5,000 additional employees to be housed at the Pentagon.

The third part of the proposal addresses the replacement of the existing heating plan. At the same time the Pentagon is renovated and modernized, new chilled water and steam generating equipment will be installed. The new plant will be able to accommodate the future requirements of the Department of Defense.

GSA recommends this three-part proposal to meet the long-term requirements of the Department of Defense which also ensures the preservation and enhancement of a valuable real property asset of the Federal Government.

With reference to H.R. 4726, the proposed legislation would require the General Services Administration to renovate the Pentagon building and complex. To fund the project, the bill would establish a separate, reserve account in the Federal Buildings Fund to be known as the "Pentagon Renovation Account." Funding in the account would come from three sources.

First, rent amounts paid by DOD to GSA for the Pentagon complex which would be in excess of the amounts expended by GSA for the operation and day-to-day maintenance of the complex.

Second, funds appropriated into the Pentagon Renovation Account by Congress.

Third, other funds which GSA might transfer into the account.

Funds in the Pentagon Renovation Account would only be obligated to renovate the Pentagon complex and the account would be terminated 90 days after completion of the renovation.

The legislation would also require GSA to submit annual reports to the Congress on the progress of the Pentagon renovation and modernization as well as the status of funding for the project.

It is the position of the Administration that custody, jurisdiction and control of the Pentagon should be transferred to the Department of Defense and that DOD should have the sole responsibility for the funding and execution of the proposal as outlined in the 11(b) Report and H.R. 4436. Therefore, GSA necessarily opposes the passage of H.R. 4726 and supports enactment of H.R. 4436.

There are two reasons why the transfer of the Pentagon complex to the Department of Defense has been proposed. First, the renovation and modernization of the Pentagon building will create unique security problems and the logistical difficulties inherent in any major renovation will be complicated by the extremely high sensitivity of the building tenants. The Administration believes that the Department of Defense is in a better position to manage and control such security and logistical issues.

Second, the renovation of the Pentagon complex would place a significant demand for resources on the Federal Building Fund at a time when there will be many other competing demands on the fund, such as the need to construct additional Government-owned facilities. During the years in which the Pentagon renovation would occur, there would be several years when rent income from the Pentagon complex would be insufficient to cover projected costs.

Diversion of resources from other areas would impact on GSA's ability to address its other capital investment objectives. The transfer of the complex to the Department of Defense would eliminate this concern.

That concludes my opening statement, and I look forward to an opportunity to answer your questions and other questions of the Committee. Thank you, sir.

Mr. Bosco. Thank you very much. We'd now like to hear from Mr. Cooke, Director of the Administration and Management Office of the Secretary of Defense.

Mr. Cooke. Thank you, Mr. Chairman and members of the subcommittee. I completely subscribe to the statement of my friend and still my landlord, Dick Austin. With your permission, I'd like to submit my full statement for the record.

Mr. Bosco. We never turn down a request of that sort.

Mr. Cooke. Thank you very much. I was certainly pleased to hear that there is substantial agreement, not only on this side of the table, but on the other side, of the need to complete the modernization of the Pentagon. At the time the Pentagon was built, why you didn't dream of such things as word processors, computers, high demands on energy and the like. I don't think there's any point to dwell on the need for renovation; I think that's generally accepted.

We support the transfer of the Pentagon to the Department of Defense from GSA primarily for several reasons. I'll summarize them briefly. The specific benefits that we would expect to get are the elimination of layers of management, duplicate reviews both in the Department of Defense and GSA and accountability improvement by simplifying the audit trail. We will eliminate the debate over which agency pays for what features. Because the Pentagon is not an office building solely, it is the seat of the Department of Defense, it has special unique requirements with regard to security, communications, crisis management, national military command center, and I could go on and on in that regard.

We would establish a multi-year funding priority controlled by the Department of Defense. The renovation would not be subject to the change in priorities and the demands placed upon GSA by multiple customers. And we believe it would enhance national security because the headquarters of the Department of Defense would be under the immediate control of the Secretary of Defense. These are the main points for the transfer, and I shall be glad to elaborate during the question period.

Thank you very much.

[Mr. Cooke's prepared statement appears on page 96.]

Mr. Bosco. Thank you also, Mr. Cooke. I have a couple questions and then I think we'll go on to the others and maybe have one or two rounds of questioning.

Mr. Austin, during and after the renovation is completed the GSA would be losing substantial funds which could be used for the Federal Buildings Fund, your proposal will be costly to your own agency and to the fund. Given that, I want to examine the two reasons that you gave for opposing this legislation, one of which is the security of the renovation project. Whether this renovation is done by the Department of Defense or through the GSA, it will be done by private contractors, not an in-house personnel, and that any people coming onto this complex would presumably be under enormous scrutiny and security provisions. Why is it that all of a sudden GSA can't provide for that type of security?

Mr. Austin. Well, Mr. Chairman, it's been discussed at some length between both DOD and GSA that the Pentagon does present rather unique kinds of problems in terms of the security aspect. It was felt that they have a better history, if you will, of dealing with those kind of contingencies on a day-to-day basis than we have. You're correct, Mr. Chairman, it is going to be an outside contractor; there are going to be unique considerations in terms of just letting the contract itself and identifying those kinds of security requirements that are going to be inherent to the project. It was agreed upon that DOD would be better in possession of those unique requirements and be able to oversee them on a daily basis than GSA has been or would be.

Mr. Bosco. Why can't GSA contract with the Department of Defense to provide that type of security?

Mr. Austin. We could very well; I don't know that we'd even need to contract. I think they could be participatory in the oversight.

Mr. Bosco. Would they be providing this type of security regardless of who owns the Pentagon and who performs its renovation? Do they provide it now?

Mr. Austin. Yes, sir.

Mr. Bosco. So what would the difference be?

Mr. Austin. Mr. Cooke, do you want to try to answer?

Mr. Cooke. Mr. Chairman, since 1987 GSA has delegated the operation of the Pentagon—including the Pentagon Police Force, the Pentagon Maintenance Shops, the Pentagon Security—totally to the Department of Defense. Currently DOD is providing for the security of the building; the Pentagon Police Force of the Washington Headquarters Services serves the complex. The maintenance of the building and its operation is now a responsibility of the Department of Defense.

Mr. Bosco. Well, I think that's the point I'm making. Why has this suddenly become a major problem? If the Department of Defense is in charge of security now and would be during the renovation project, what possible difference does it make who owns the building and who's authorizing the renovation?

Mr. Cooke. The major problem is that we have one agency controlling the construction operation and another controlling the maintenance. We need to keep the Pentagon fully operational as the headquarters of the national security establishment during the course of the renovation. We're not totally moving out of the building; we will gut it in large sectors, reconstruct, and then reoccupy. We would, of course, have to screen GSA contractors as we screen our own. Although the GSA contracting officers would have the final say on contractors, the contractors and their personnel must meet DOD's security requirements. We feel that it's much better to have only one agency involved in the whole process. The massive process which is going to take a number of years to complete, the modernization of the Pentagon.

Mr. Bosco. Well, Mr. Austin, do you have jurisdiction over the various CIA buildings and the FBI building and other buildings that require security?

Mr. Austin. We have jurisdiction in the sense that we constructed the buildings for those agencies. The buildings are leased to the agencies and they pay us rent for them. They are actually in charge of their own security within the facilities.

Mr. Bosco. Do you renovate those buildings?

Mr. Austin. We let contracts for the renovation of those facilities; yes, sir.

Mr. Bosco. Do you find that you've had a problem with this bifurcated system of you owning the building and organizations that presumably are just as in need of security as the CIA and the FBI—is their security breached when you have renovation conducted in their building?

Mr. Austin. Mr. Chairman, we've not had a problem relative to the security issues in the past with any of the other facilities. As I indicated, though, while certainly I suspect that the CIA might have comparable security requirements or somewhat comparable to DOD, DOD does have some unique and significant security problems which we have not dealt with in the past, both in terms of their data base, their communication systems and other items.

Mr. Bosco. So a contractor who came in to renovate this building would suddenly gain access to the DOD data base and communications system and be able to run the world; is that what would happen if GSA conducted this renovation project?

Mr. Austin. Well, no, sir. I would not suggest that that would be—they, as I say, do create unique security problems, and DOD feels somewhat more comfortable if they were able to control those issues than have GSA do it.

Mr. Bosco. Well, I can imagine DOD would feel more comfortable controlling the entire building, but I don't feel comfortable losing $186 million a year due to their comfort. I guess I'd need to know a little more. I'm not convinced that this is such a unique problem to justify that type of a loss to the Federal Buildings Fund.

Mr. COOKE. Mr. Chairman, when you talk about renovating the CIA extension which was just built—incidentally paid for by CIA—or the FBI building that was recently built, that's entirely different from moving large segments out of an occupied building, stripping the building down, putting in a complete new heating/air conditioning ventilation system, new power panels, new security and the rest. Comparing perhaps minor contractual changes in a relatively new building to the process we're talking about here, I think is not a like comparison because we have to maintain operations.

Mr. BOSCO. Just last week we had a proposal to build some 3 million square feet of space for the Navy. I assume that you'll be requesting that the Navy own that building and not GSA due to the same security concern. Aren't they in as much need of security as——

Mr. AUSTIN. Mr. Chairman, at this time where or how the Navy facility will be built hasn't been decided; however, it is a GSA project, has received OMB clearance and was included in the President's budget amendment. It would be my belief that unless the Armed Services Committee would direct some kind of Mil-Con funding for it, the GSA would, in fact, build it and control that facility.

Mr. BOSCO. Do you feel that there will be more security during construction of a Navy building than during renovation of the DOD-owned Pentagon?

Mr. AUSTIN. Mr. Chairman, I would assume—and, again, I'm assuming this—they already are resident in lease space outside of the Pentagon complex. We have been able to meet their security requirements in that capacity and we would be able to do so under the construction process.

Mr. BOSCO. In other words, now we have a situation where a private owner owns the Navy building and this perhaps should cause all of us to stay awake at night from a security basis. If the GSA can't build or renovate buildings in a secure manner, one can only imagine what happens when we hand it over to the private sector.

Chairman Anderson, would you like to ask any questions?

The CHAIRMAN. Thank you, Mr. Chairman. Mr. Austin, I understand that you have testified before other committees and that you have successfully fought twice within the Administration to have the General Services Administration renovate the Pentagon. Is that correct?

Mr. AUSTIN. Yes, sir.

The CHAIRMAN. And is it fair to say that on both of these instances, you believe that General Services could renovate the Pentagon from within the resources of the Federal Buildings Fund and without any threat to our national security?

Mr. AUSTIN. No, GSA would need an appropriation of $134 million to carry us to the year 2003.

The CHAIRMAN. And is it fair to conclude that the General Services felt that they could renovate the Pentagon until the OMB told them to change their position when the 11(b) Report was sent to them for review? Mr. Austin, I believe one of the main reasons that DOD wants to own the Pentagon is because they're concerned that

General Services is not committed to the project in light of their past practice. Now, what do you think can be done to give Mr. Cooke and the DOD an ironclad commitment by General Services to complete the renovation project if it is not transferred to the DOD?

Mr. **Austin**. Mr. Chairman, what could be done is to redefine the MOU. As history shows, there was an MOU developed in 1987 between then Administrator Golden and Secretary Carlucci which identified both the transfer of the day-to-day operations of the Pentagon to the Department of Defense, and as well set the stage for the ultimate transfer of the Pentagon to the Department of Defense. What could be done in the absence of the transfer actually taking place is to redefine the MOU and establish a time table agreeable. Both by DoD/GSA on the renovation of the Pentagon. Funding for the project would be provided on an annvalied basis and GSA would come back through this Committee to do that. Hopefully we would show through due course and diligence that GSA is committed to meeting their requirements there.

Mr. **Cooke**. Mr. Chairman, I'm glad that Mr. Austin referred to the MOU because on the 29th of September 1987, the Administrator of GSA specifically stated, "GSA agrees to support legislation required to transfer the jurisdiction, custody and control of the Pentagon complex from GSA to DOD." So the position of GSA is not changed. That has been the position of GSA since September of 1987.

The **Chairman**. Well, I'm looking at you fellows for leadership. One of my problems is that I was in the building business for many years and I've built things, some of them even for Government, but usually for private sector. It worries me to think that every agency of the Government will have to go into the building business, learn how to build and operate buildings correctly. I feel that we should have one agency, such as the General Services Administration, that has this responsibility. I just went through a big fight on building a public building in my area, and I'm going to save the taxpayers approximately $100 million. Otherwise, we're wasting our money to rent space forever.

That's why I hate the thought of transferring the Pentagon. If we go this way, then the Coast Guard will have to build theirs, and Immigration will have to build theirs. Every agency in the Government will go into the building business.

Mr. **Cooke**. The Service's have had a considerable amount of experience in building buildings and that experience goes well back before GSA was created. We have built and are building a number of buildings on military installations through the corps of Engineers, one example being the Defense Intelligence Agency building at Bolling Air Force Base. Those that suggest that we would have to suddenly get experience in constructing buildings, it simply isn't the case. We have built a number of buildings over hundreds of years.

The **Chairman**. Mr. Cooke, I understand that DOD plans on using the funds that would otherwise be paid to General Services for rent to renovate the Pentagon. However, in a few years during the renovation, additional funds would need to be appropriated to the DOD. Now, how much additional funds are going to be needed?

Mr. Cooke. We looked at a funding profile as you stated, Mr. Chairman. Both proposals essentially would finance the renovation of the Pentagon from the projected rent that we pay to the General Services Administration, and I'm sure you're aware that a considerable amount of that projected rent would not come back to the building for maintenance. Over the course of a funding profile, our estimates show that in the period between the third and the ninth year of renovation or modernization, rather, the Pentagon would require about $460 million of Military construction funds to be used to complete the renovation. By the end of the 14th or 15th year, it would be a wash. We could fund the renovation completely with that bubble of million funds in the middle years which would be recouped in the later years.

The Chairman. Mr. Cooke, if it weren't for the security considerations, would the Administration support appropriating this money to the Federal Buildings Fund for General Services to do the renovation in much the same way that the President proposed appropriating additional money to the Federal Building Fund for General Services to build the Navy and the Department of Defense projects in Northern Virginia?

Mr. Cooke. I think it would be because the Pentagon, as I say, is unique; it is the headquarters of our national security. It is not one of the subsidiary components of the Department. Our desire, of course, and I think I can speak for Mr. Austin, too, is we prefer to build on Government-owned property because it's cheaper for the Government to own buildings than pay rent on them.

The Chairman. Mr. Austin, if the Federal Building Funds cannot support large projects like the Pentagon renovation, then why shouldn't we give other agencies like DOD their own authority to build projects and have appropriations made directly to all these agencies as you are proposing here?

Mr. Austin. Well, Mr. Chairman, I think for several reasons. Number one, the Pentagon project is unique; DOD has the ability to do its own construction. DOD has resident experts in terms of engineers, architects, & contract management personnel. They don't have to create a new department; they don't have to create a new system; they don't have to go out and contract for this expertise. The other agencies within the Federal Government for the most part—perhaps setting aside VA—do not have that resident expertise. They would have to acquire it. That would obviously be, number one, a duplication of services currently provided by GSA and, number two, very costly and would add to the expense of the project. Therefore, while it may well be in DOD's interest or ability to handle this kind of a project, it would not be the case with other Federal agencies.

Mr. Cooke. Mr. Chairman, could I add that the 11(b) Report and the design concept was done primarily by the Department of Defense. GSA delegated design responsibility to Defense and the concepts that we are describing here this morning in both the 11(b) Report and in the submission that I gave to Congress was developed by the Department of Defense through its resources. We've paid for the design work completed to date. So in any event, we're talking about the planning and design concepts developed by Defense resources.

Mr. **Austin**. I might add, Mr. Chairman, we don't necessarily agree on several things within that proposal, such as the dollar amounts, the timing.

Mr. **Cooke**. I mean the basic design approach and the base estimates.

The **Chairman**. You didn't answer my last question, I said if the Federal Buildings Fund cannot support the project, does the alleged inadequacy of the Federal Buildings Fund to renovate the Pentagon prove that the concept of a self-sufficient fund is a failure?

Mr. **Austin**. No, sir, it doesn't. What has happened, Mr. Chairman, gets into history. In 1975 when the Federal Building Fund concept was identified and ultimately became the process by which we would hope to provide for new facilities in the Federal Government, I think this concept was a very viable idea. What happened was several things. Number one, Congress imposed caps on the rental rates and even directed reduction in rental rates that agencies paid. Therefore, we wound up losing money. Number two, the life safety, health safety issues were unknown at that time which has put an inordinate drain on the fund. Asbestos abatement, PCB removal, radon, and clean air quality are examples of these issues. This year alone, Mr. Chairman, GSA is preparing to spend $525 million out of that fund just in support of renovation projects.

Number three, Mr. Chairman, is the issue of leased space. This is the reason for the President's Budget Amendment. We found ourselves through a period of time not building new facilities simply because the funds were not available or the mechanisms that were available were not sufficient. As a result of that, we are now paying $1.5 billion a year in lease payments out of the Federal Building Fund in an ever-expanding inventory of Federal space.

What we are now proposing and we're just beginning to enter into is to try to recapture some of those leased spaces through the $2.4 billion that the President has requested. But I might add, Mr. Chairman, we are complementing that by another $500 million out of the Federal Building Fund. So there's where the drain begins again. We do not have the money in the Federal Building Fund to be able to support both the $2.4 billion—or actually in the aggregate, $3 billion project and add another $1.3 billion to it to do the Pentagon renovation.

I might add, Mr. Chairman, it's because of the peaks and valleys and the ebbs and flows. If you look at our proposals, we would lose out to the year 2003 in the aggregate of $134 million. Now, granted in years four, five and six we would start recapturing those dollars. But the problem is we can't afford to lose 134 in the out-years before we start to make a profit.

The **Chairman**. You need approximately $450 million appropriated, in addition to the amounts that have gone for rent, in order to have the Pentagon renovated under your proposed time line; is that correct?

Mr. **Cooke**. That's correct only for a bubble of Milcon funds in the middle years, you take the funding pattern over 15 years, it's a wash. We can recoup the $450 million from Milcon in the out-years from the projected rent that we anticipate paying or would have paid to GSA. I can furnish our funding profile to the Committee for its consideration.

The CHAIRMAN. Well, now, Mr. Cooke, notwithstanding the fact that the Secretary of Defense has his office in the Pentagon, is it possible that the Department of Defense may not be able to complete the renovation project due to cuts in the Defense budget and how can you guarantee that this won't happen?

Mr. COOKE. Obviously I'm not in a position to guarantee what the Congress and the Administration's wisdom might bring in the years to come, but I have every confidence that if we have responsibility for completing this renovation and bringing the building in to the 21st century, we will be able to complete it. I think our assurances of what might be completed might be a little higher than depending upon whether the Congress will budget to GSA for the influx to the entire building fund as Mr. Austin just described to you.

The CHAIRMAN. I think I'll rest my questions for a little while and let somebody else ask them.

Mr. Bosco. Thank you, Mr. Chairman. Mr. Petri.

Mr. PETRI. Thank you. I'd like to thank both the witnesses for their testimony. I just had a couple of general questions. With the Pentagon project and, as discussed at our last meeting, a new Navy building in the general area, we're talking about adding four and a half million square feet of space in addition to the 6.3 million or so that's in the current Pentagon. At the same time, we're talking about bringing troops home from Europe and reducing significantly the Armed Services. Does the left hand have any relationship to the right? Back home I guess people will be asking if, when we bring the troops out of Europe, are we planning on stationing them at the Pentagon. Is this the reason for this vast expansion; do we have to increase the overhead and space for the head of a much smaller body? How does this all fit together? Or is one kind of charging forward based on past build-ups and not anticipating future reductions? If that's the case, shouldn't we put a hold on for a little while to regroup and figure out if we could just renovate the Pentagon and change it around a little rather than adding two new buildings in the process?

Mr. COOKE. Mr. Petri, the Navy project stems from the fact that we're already occupying a substantial part of Crystal City. Many of those buildings were built according to commercial standards and not to DOD standards. Some of the first buildings the Navy moved into in Crystal City simply no longer meet current GSA standards for leased space. The Navy is somewhat overcrowded in Crystal City, being well below the GSA standard of 135 square feet per person. Parenthetically, we may be the only executive department in town that's meeting those standards. But at any rate, the concept of the Navy proposal that we, GSA and the Navy developed on was to move out of Crystal City or at least to move out of that space and seek an opportunity to get better space.

As a matter of fact, the Crystal City project was described along with the Pentagon project in a report that we submitted to the Congress about our plans for the total National Capital Region a couple years back. I think a copy was submitted to this Committee. Now, on the draw-down, by the time we complete the substantial reorganizations and reductions in headquarters envisioned by Secretary Cheney and Deputy Secretary Atwood, whether we'll need the five Navy buildings which are in the solicitation is highly doubtful. We'll undoubtedly reduce our requirements and we could stop at the third building. So, first of all, there is no expansion of space because of the Pentagon vis-a-vis the Navy solicitation.

Number two, I am certain that there will be less administrative space required overall by the Department of Defense in the Washington area when we complete the reductions and reorganizations, substantially less.

Mr. AUSTIN. Mr. Petri, may I also address the question?

Mr. PETRI. Yes.

Mr. AUSTIN. The Department of Defense has approximately 11.6 million square feet of space within the National Capitol Region. Approximately 6.5 million square feet of that space is leased space, the most costly kind of space one can have. In fact, Mr. Petri, the proposal calls on recapturing one million square feet of space within the Pentagon itself to offset against leased space. Number two, we have a proposal within the President's budget amendment for another 1.8 million square feet of space to recapture against leased space. And then the Navy is currently occupying some 23 different buildings in the Crystal City area in leased space. Now, whether it becomes the full three million square feet or 3.5 million—and that number seems to be rather fluid; it keeps going up and down and whatever. As I understand it, the concept, however, is to design the project so that at whatever point the Navy's needs are met, you stop that project and you don't have to build to the full expanse of what they've now requested.

But the real intent is to impact on that 6.5 million square feet of leased space that DOD has in Northern Virginia which is very, very costly space.

Mr. COOKE. As a matter of interest, we occupy about 120 buildings total—Government owned and Government leased in the National Capital Region.

Mr. PETRI. When the proposal was submitted—I think two or three years ago now—for a second Pentagon, there was quite an expression of concern on the part of elected officials in Virginia about the effect on transportation in the region. Do you anticipate any negative reaction to a some two-thirds increase in the size of the Pentagon between these two proposed projects?

Mr. COOKE. The Navy project would not be located near the Pentagon at all. Originally, when we first started planning, we talked about a three million square foot annex or building in the South Parking Lot of the Pentagon that engendered quite a predictable reaction not only from the local jurisdiction, but for that matter, from the employees of the Pentagon who use much of that space for parking. That annex is no longer at all part of our proposal. The initial phase of the renovation would be to construct an underground extension out from the Mall Terrace, as Mr. Austin described, in order to gain some space within the building as swing space. But overall, the project might require as much as perhaps $70 million in total leased cost for swing space because we have to literally vacate, if you will, a slice of this layer cake called the Pentagon in order to renovate it.

Mr. **Petri**. But you're talking about 3-5,000 additional personnel in the Pentagon complex. Is there a plan for expanding parking there, or are they expected to commute some other way. What's going to happen to the transportation?

Mr. **Cooke**. Pentagon parking, right now, is better than at any other primary headquarters in town. As a matter of fact, many of our people who are in the other leased buildings have to pay, as many Federal employees have to do, for parking spaces. In answer to the basic thrust of this question, we would anticipate to work very closely with the Arlington Board of Supervisors and the National Capital Planning Commission to work out those details.

Mr. **Petri**. I just have two other questions I'd like to ask. One is for Mr. Cooke—if you could discuss a little bit of the history of how it happened that the Pentagon ended up under GSA in the first instance. I think as you pointed out in your earlier testimony, historically the Defense Department preceded GSA and was responsible as I understand it for construction—and still is responsible for construction of most of its facilities. You have quite an operation to handle—acquisition, modification of bases and all that sort of thing—and you do it independent of GSA. Why was the headquarters of the Defense Department when it was built placed under GSA if you know?

Mr. **Cooke**. Contrary to belief, I was not at the Pentagon when it was built. The Pentagon was built by the predecessor of the Corps of Engineers, as a matter of fact. Built in about 16 months. People have been telling me it was built at a total cost of $83 million, including land. I respond, of course, if you put that in terms of current dollars, it would be over a billion dollars. The Public Works Administration, a predecessor of GSA, was assigned jurisdiction of the Pentagon by law. I'm not familiar with the legislative history by which it was done except that the land that was used was, at that time, under the jurisdiction of the War Department.

Mr. **Petri**. I think it's really for Mr. Austin. We were on the Conference Committee last year on the question of whether this should be taken out of the GSA's Building Fund. I'm no expert—but just listening to the various disagreeing experts depending on where they sat it seemed that in terms of the impact on the Building Fund, that when all was said and done, taking it out of the GSA Building Fund and giving it to DOD would, in fact, free up resources for additional projects around the country rather than lessening the amount of money that the GSA would have in the Building Fund over the 17-year project. I know you have a projection that over 17 years you'll end up because of rent increases with $184 million more than not. But you know over 17 years construction costs are going to go up and there are all kinds of budget games that people play about whether you're allowed rent increases and how that's all done internally. Meanwhile, we know there will be several years where there will be very tight—great tightness in the Federal Building Fund unless additional money is brought in and we'll have to stop a lot of projects around the country or come up with some additional resources in those years. I mean, that's sure. So, is this right or wrong? Can you really give us your best advice as to whether over 17 years if it's in the Building Fund it will interfere with a lot of other projects; or on the contrary, do you think keeping this in the Building Fund will tend to generate more resources for other projects around the country?

Mr. AUSTIN. Well, Congressman, let me answer it this way. The answer is both yes and no.

Mr. PETRI. You must be an economist.

Mr. BOSCO. That's why Dick did so well on his confirmation.

Mr. AUSTIN. Yes, the Building Fund does take hits throughout the course of the project, as I indicated, to the tune of about $134 million loss until you reach the year 2003. Then in the year 2003 we start recapitalizing the fund and start making—and I might add—a significant profit. But the profit is generated by the fact that we are now charging at commercial equivalency rate of market price. Right now the Pentagon is the best space money can buy in terms of square foot costs.

So to answer your question, throughout the year 2003—and I would qualify that. I'm talking simply about the cost, Mr. Cooke, not the quality of the building.

Mr. COOKE. I'm not quite sure—you get what you pay for.

Mr. AUSTIN. To the year 2003 we do take losses to the fund. After the year 2003 we start making profits. Now, what does that say in terms of the thrust of the question? Is it better for the Pentagon to be in or out of the fund? It's my belief that it's probably better that the Pentagon be out of the fund to preclude the drawdown on the fund to the $134 million or whatever that number may come out to be after we get through contracting. Given the set of circumstances, Congressman, that certainly you and the Chairman are aware of our proposal to do the 11 and a half million square feet of projects we currently have on the board, not addressing by the way the other projects which have now come into the pipeline and we need to sit down and talk about. The Federal Building Fund is wholly incapable of handling that.

There's a second consideration. If GSA were to, in fact, do the Pentagon repair project, it would require a significant commitment of personnel which would have to be drawn away from other projects that are currently being planned for. So there is a benefit to be had by GSA through the year 2003.

Now, I have got to share with you my personal belief and the reason I fought with OMB on two occasions was that it was very parochial. I did not want to give up the Federal Building or give up the Pentagon and I was also committed to the fact that GSA could do the job. Clearly we had that responsibility. And I think Doc Cooke and others make a very pointed argument that they have paid us well for that facility. I've yet to explain to Doc what the Federal Building Fund is and how it works, but they have paid us well and I think it's unfortunate that other administrations have not maintained the facility in a current state through that process. It is very bad in terms of its operation right now.

So there is a moral responsibility on GSA's part from my perspective to do the renovation project. However, at the same time the Pentagon is a very historic building that's significant to our history. I would prefer not having that albatross within the Federal Building Fund while simultaneously trying to address the other needs that we have out there. These other needs include 253 million square feet of space that we have to deal with in terms of R&A and getting out of leased space.

Mr. COOKE. Mr. Petri, may I add, I sometimes think the Federal Buildings Fund works off the corpus of the Pentagon because over the years we have paid in substantially more, far more, than we've gotten out or that GSA has put into the building. But in any event, I don't come before you attacking the concept of the Federal Buildings Fund. GSA has some 7,000 buildings. All I'm talking about is 1/7,000th.

Mr. BOSCO. Mr. Geren, do you have any questions?

Mr. GEREN. Just one question, Mr. Chairman. Most of our discussion about the need to make the transfers is really focused on the construction of the addition. I guess this is really a question to Mr. Cooke rather than Mr. Austin. I know it's hard to find a tenant to say nice things about his landlord. In the operation of the building are there ongoing problems that you believe support the need to make a transfer to the Department of Defense, or are your problems really the rent and just the need for security during this construction phase?

Mr. COOKE. Mr. Geren, we are operating the building now under a delegation from GSA. I think it works well. It works well because the best fertilizer a farmer has is the farmer's footprints in the field; we are in the field and GSA is not. Our field being the Pentagon. The delegation does have problems because we have to go through two management levels. We put together a budget of what we think we need to operate the Pentagon, including the police force and so forth. GSA is doing the same thing. We then get together—and this is about the end of the fiscal year, 17 or 18 months before we ask OMB for money. As far as operating the Pentagon goes, we have been operating it quite successfully with cooperation from GSA for major repairs at times. But we've been operating the Pentagon and we would expect to continue the operate it regardless of who does the construction—I mean who owns the building.

Mr. GEREN. I guess my question is, is that current arrangement satisfactory with that delegation?

Mr. COOKE. Well, it is except that we have two levels of management to go through and sometimes three because we have to go through the GSA regional office. At times the GSA region, for one reason or another, doesn't have the authority to commit. We then have to move to the GSA Headquarters to obtain resolution. So the extent to which there are overlapping duplicate layers of management is a problem, not in actual operation. We're quite satisfied with being responsible for building operations.

Mr. GEREN. And you're satisfied with the way GSA lets you operate it?

Mr. COOKE. Several years back, one of Mr. Austin's predecessors believed that operations should be delegated to the various executive authorities who occupied the building with GSA having policy and evaluation oversight. Now, of course, we do have some problems with the fact that we pay in rent—now rent, it used to be called SLUC—substantially more, perhaps twice as much as we get back to operate the building. In that sense we think we can operate it more efficiently and at less cost.

Mr. Geren. Mr. Austin, in your work with the Department of Defense or GSA's work with it, have there been problems that have come up over the years that have been difficult to resolve with the current arrangement, or do you feel that the arrangement as it currently is structured does work well and meets the needs of both departments?

Mr. Austin. Congressman, I think we have a good working relationship with DOD. Certainly there is something to be said to be in charge of your own destiny and be able to direct things to be done when you'd like them done as opposed to having to come to an oversight agency and have them plug your request into priorities or program requirements that they might oppose. But I think throughout the course of it even though we may have disagreed, we've not been disagreeable about it. So has the process worked? Yes, it has. Has it worked well? I think in terms of the relationship, it has. Unfortunately, the end product is what we see today and that is the fact that there is a $1.3 billion requirement to renovate the Pentagon.

Mr. Cooke. Mr. Congressman, let me give you an example and this goes well before this proposal to transfer custody. In December 1978 there was a request from the GSA heating engineer who runs the power plant to replace the four coal boilers. As a matter of fact, the coal boilers are of a design similar to those used during the construction of the Panama Canal. Then we had a letter back in 1987 notifying GSA the boilers were unsafe to operate. Later in 1987, a letter from GSA ensured us that necessary action for the reliability of the coal boilers, in fact, would be considered. Right now replacement of the heating and refrigeration plant is our number one priority because we almost lost the chilled water which runs our computers. The Pentagon power plant is being operated with four rented boilers and seven rented chillers. Our first order of priority is to build a new plant. And the problem with this situation is that, it may be nobody's fault or it may be everyone's fault.

Mr. Geren. Thank you.

Mr. Bosco. Thank you, Mr. Geren. Mr. Duncan.

Mr. Duncan. Thank you, Mr. Chairman. Mr. Petri asked the main questions I had concerning the cutback in the military and the effect of all of this on the GSA Building Fund. But one thing I'm not clear on, Mr. Cooke, is this matter of swing space, the space that would have to be leased while the Pentagon is being renovated. Did you say it would cost $70 million?

Mr. Cooke. That would be over the course of the project.

Mr. Duncan. That's over the course of the whole project?

Mr. Cooke. Yes.

Mr. Duncan. I wasn't clear on that.

Mr. Cooke. The first swing space we hope to recoup is by building the light industrial extension out from the Mall Terrace and moving activities out of the basement. We've got a large printing plant there. We would also be able to move the loading docks on the south side of the building. We would enhance security by not allowing in commercial trucks which now have to come inside the building and roadways to deliver products. Then we could double-deck the basement space which is tall space and pick up a substantial amount of additional space. But during the course of the renovation, as we literally demolish almost down to the walls, as I call it, a wedge of this layer cake, we have to make some provisions for additional swing space. One possibility we're looking at might be moving the Marine Corps and part of the Navy from Federal Office Building II, which is part of the Pentagon reservation, as described in both bills. Federal Office Building II is a World War II building and it is not as substantial as the Pentagon. That's also the home of the Commandant of the Marine Corps, and it might be possible to build a headquarters for the Marine Corps on Government land like Henderson Hall; use some of the space in the Navy Consolidation project to move the Navy Personnel Command from FB#2 and use this building for swing space. There are details which we haven't figured out yet concerning the swing space, but a prudent estimate is during the course of the lifetime of the project, it would cost us an estimated $70 million to lease swing space.

Mr. Duncan. Let me ask you this, according to the information that we get, there was a GSA estimate that the renovation would cost about $450 million in 1987. Last year in the conference there was an estimate of $600–800 million. I can understand that a building that was built in 1942 and 1943 would need substantial renovation, but how have we jumped up so much so suddenly because, even figuring in inflation since 1987, $450 million to $1.2 billion is a big jump.

Mr. Cooke. Concerning the estimate of the $450 million, because we both agree now on the $1.1 billion, I'd have to go back and check where the $450 million came from. I'm simply not familiar with it.

Mr. Austin. Well, let me say if I may, Congressman, the scope of the project, number one, was not as well-defined as perhaps it might have been or should have been by any of the previous numbers. Number two, once defined, even that has changed as we've gotten into trying to address some of the problems. The 450,000 square feet of new space, where would it go? How would it be there? The total replacement of the heating plant, the recapture of the space within the Pentagon as opposed to just doing the renovation, alteration and the repairs. We're also proposing now to recapturing almost 600,000 square feet of space to create more room within the Pentagon for housing the 3–5,000 new personnel.

So the scope of the project has changed somewhat. Time has caught up with us and costs have increased from the initial dates when we were looking in a very general way. And the expansion of the project even once scope was defined to try to recapture space so we could reduce our leased space requirements.

Mr. Cooke. Let me also add that that total cost includes the cost of operating the Pentagon because we're not only talking about completely modernizing; we're talking at the same time operating that building with all its functions. I take that back—it does not include the operation, the $1.1 billion.

Mr. Duncan. I assume that some of the Pentagon, or maybe even all of it, has been renovated over the years slowly. Do you know how much has been spent to repair or renovate the Pentagon over the years? Do you have any estimate of that?

Mr. **Cooke**. Many of the offices have been painted and repainted, but the basic heating, air conditioning has not been changed.

Mr. **Duncan**. You're saying there's been no substantial renovation?

Mr. **Cooke**. No substantial renovation.

Mr. **Duncan**. All right.

Mr. **Austin**. I don't have that figure before me, Congressman. We have expended funds over the years to try to maintain or help maintain the Pentagon. I don't know that I would say they necessarily have been to the degree that DOD would like or perhaps in the areas that DOD would wish. But there has been funds expended. It has not been a totally give, give situation without give back.

Mr. **Duncan**. How many people work in the Pentagon now?

Mr. **Cooke**. Approximately 23,000.

Mr. **Duncan**. Twenty-three thousand. And after the renovation is complete, that would increase the number by three to 5,000?

Mr. **Cooke**. Well, we would gain—depending on the plan you take, at least 500 square feet of usable administrative space.

Mr. **Duncan**. Five hundred square feet?

Mr. **Cooke**. Five hundred thousand.

Mr. Bosco. We always add three zeroes.

Mr. **Austin**. Congressman, if I may, just back since 1975 we spent about $40 million on renovation of the Pentagon above operating expenses.

Mr. **Duncan**. Above operating expenses?

Mr. **Austin**. Yes.

Mr. **Duncan**. All right. Thank you very much.

Mr. Bosco. Mr. Oberstar, do you have any questions?

Mr. **Oberstar**. Mr. Cooke, you said that security is one of the reasons you want to do this project in house by the Defense Department. What security concerns of the Pentagon or the Defense Department would be jeopardized by GSA handling the project and which have been jeopardized in the past?

Mr. **Cooke**. Well, at the present time, Mr. Congressman, we are responsible under a delegation from GSA for the security of the Pentagon. That is the physical security, the security of the people and so forth. What we're talking about is that is a very major complete modernization of the Pentagon where we will have to physically move people from one place to another. We will also have to physically move systems—some of them highly classified systems, from one area to another. And we feel we can do a better job if we're directly responsible for the complete project—including the security clearance of contractor personnel and the like.

Mr. **Oberstar**. You still haven't really answered my question. In what way would management of this work by GSA compromise or any way—two years ago this wasn't a question. Three years ago security wasn't a question. All of a sudden security is a question today. I want to know what's changed.

Mr. **Cooke**. I think security has always been a question as far as we were concerned. We have always been responsible for the security of our people, the security of our systems.

Mr. **Oberstar**. But you never said in the past that we don't trust GSA to do this work.

Mr. Cooke. Well, we never said we don't trust GSA because GSA leases any number of buildings, as the Chairman pointed out, for us in Crystal City. There again, though, under the delegation we're responsible for the physical security. But we feel that without an intervening management layer we can do a better job of security.

Mr. Oberstar. It just sounds to me like someone cooked up an excuse to give the Defense Department a means of control over this project.

Mr. Cooke. Mr. Congressman, the position of GSA since 1987 has been that the Department of Defense should have control over the Pentagon. And I'll be very pleased to supply for the record an agreement signed by former Administrator Golden in September of 1987 agreeing with the Department. So this is not a Johnny-Come-Lately position as far as GSA is concerned.

Mr. Oberstar. Is the proposal for transfer of management of the recent construction of the facility a precedent for other such transfers to be done by other Government agencies?

Mr. Cooke. Not as far as the Department of Defense is concerned. We are only seeking—because of its unique nature as the seat of the Department of Defense—custody and control of the Pentagon. There are, of course, any number of other buildings owned by the Federal Government that are not under GSA at the present time.

Mr. Oberstar. Mr. Austin, is this transfer of responsibility being designated by OMB to be a precedent for similar such transfers and similar such effects upon the GSA Building Fund?

Mr. Austin. Congressman, I think any time you make a change in what might be considered standard operating conditions, you set the obvious precedent of future actions. I'm hopeful that it's not a precedent and I think in looking at it from our perspective, notwithstanding the fact that the previous Administrator concurred on it, I think from our perspective this is a unique situation and one that is so unique it justifies the transfer in the sense that in terms of the financial issues, DOD does have the wherewithal in terms of the Corps of Engineers—their engineers, their architects, their maintenance people, their management people—to operate it without additional staffing.

Mr. Oberstar. And if GSA is—and I see in the testimony from Mr. Cooke that DOD has had the Corps of Engineers developing the prospectus and so forth. How would GSA do this?

Mr. Austin. Do which, sir?

Mr. Oberstar. Architect engineering work.

Mr. Austin. We would go out and contract for it. It would be part of our price. We have resident architects and engineers. Ostensibly though, they are utilized for contract management and oversight compliance. We do very little in-house D & C—design and construction—activities ourselves. So we would have to go out and contract for them. I would say, Congressman, too, that I don't believe the Corps would be doing the design of the facility itself nor the construction.

Mr. Oberstar. I see that the design is going to be done by—contracted out I presume.

Mr. Cooke. We already have an A&E who would be the managing architect over the life of the project.

Mr. Oberstar. So there roughly would be the same type of service provided private sector?

Mr. Austin. Yes, sir.

Mr. Oberstar. You don't have confidence that GSA could manage?

Mr. Austin. Congressman, I never said that. In fact, I——

Mr. Oberstar. By yielding your authority over the project, you are in effect conceding that GSA in some way can't handle this.

Mr. Austin. No, I don't believe so, Congressman. What I have said, and I said earlier today——

Mr. Oberstar. Well, I've been around here 25 years, 26 years; I understand Government speak.

Mr. Austin. Well, let me put it in non-Government speak. On two occasions——

Mr. Oberstar. There are more GSA administrators than you around here, Mr. Austin.

Mr. Austin. Congressman, I'm sure you'll see more after me as well. Let me say that, first, on two occasions I stepped to the issue with OMB and with the Administration and argued the issue of GSA because I felt we had a responsibility to do this. That perhaps in the past, we had—I would not want to use the harsh word of negligent—but we certainly haven't been responsible perhaps—and that is Governmentese, Congressman—in meeting our obligations to the Pentagon. And to me, I think that's unfortunate; we should be doing that. And that the wherewithal is at GSA to do the project. However, given the programs that we are putting in place today to address not just the five million square feet that Doc Cooke or the Pentagon has, but the 253 million square feet that we have out there and the ever-increasing need to get out of leased cost space that we have right now at $1.5 billion, the R&A requirements both in support of life safety and in support of office environment at $525 million, and the operating cost in some of what I would call—Doc thinks he has it bad at the Pentagon; he ought to see some of the other buildings that we have that are now in their second, third, fourth, fifth series of alteration and repair, approaching 50, 60, 70 years old that are real dogs that we need to do something about. I cannot afford a $1.3 billion drain on the Federal Building Fund through the course of that project and still meet my obligations in other areas. And there can be cost savings achieved by doing this transfer. If I had the dollars, I would do the project and argue vociferously to let us do the project. I don't have the dollars.

Mr. Oberstar. Is the committee to take part in the ability of DOD to manage this project at estimated cost, on time, meeting specs?

Mr. Cooke. I think the record of the Corps of Engineers over its years history would compel me to say yes.

Mr. Oberstar. But the Corps of Engineers is managing the project?

Mr. Cooke. The Corps will manage the project.

Mr. Oberstar. But not the guys who deliver the $700 coffee pots and $600 toilet seats.

Mr. Cooke. I don't think the Corps has done that.

Mr. Bosco. Would the gentleman yield?

Mr. OBERSTAR. Yes.

Mr. BOSCO. Just as a side light, we're building a new building for the Corps of Engineers—or at least we have an 11(b) study out—and the GSA is going to be doing that one.

Mr. AUSTIN. That's part of the Southeast project.

Mr. OBERSTAR. You had something like that in mind.

Just a couple of final questions. How many billion square feet of office space does GSA manage for the Federal Government?

Mr. AUSTIN. We manage 253 million square feet in some 6,700 buildings, Congressman.

Mr. OBERSTAR. Then we have about 2 billion square feet of office space that is in the control of the Federal Government?

Mr. AUSTIN. Yes, there——

Mr. OBERSTAR. The greater part of that is Defense Department?

Mr. AUSTIN. It is diversified between Defense, Agriculture, VA, and GSA. About 40 percent of the Federal inventory in terms of office space is controlled by GSA. Less than 10 percent of the inventory overall is controlled by GSA. That would take in your warehouses, your labs, your special use space, and so on.

Mr. OBERSTAR. Okay. Thank you. Thank you, Mr. Chairman.

Mr. BOSCO. Thank you. We will draw this to a conclusion. We have other witnesses here. I want to thank you. Although Doc Cooke mentioned that a farmers best fertilizer is his own footsteps, I wanted to comment on another good form of fertilizer and hope we haven't gotten too much of that today. One observation, as I understand it, just to cap things off, is that the security of this project will be done by the Department of Defense whether or not GSA owns the building or conducts the renovation. That was the first point you made and I don't think that the proof that security would be jeopardized has been sustained.

The second point is that GSA doesn't want to foot the cost of some $400 million that is going to have to be put out over and above the fund for renovating this building. I would like to ask who is paying that money? It is going to be paid by the taxpayers anyway and whether DOD asks for that money from the Congress as an appropriation or the GSA asks for it, it seems to me it is going to be coming out of the same pot.

To me this whole argument boils down to the fact of is the Federal Building Fund going to lose $163 million a year and is GSA capable of running and building the Government buildings. I personally haven't seen any evidence today that would cause us to completely bifurcate and destroy the system by which this Government builds buildings.

Being Chairman, I am allowed to have the last word. Unless anyone else would like to speak, I want to thank our witnesses. It has been very informative and we thank you very much.

Mr. AUSTIN. Thank you, Mr. Chairman, members of the committee.

[Mr. Austin's prepared statement appears on page 57.]

[GSA responses to questions follow:]

Administrator
General Services Administration
Washington, DC 20405

July 13, 1990

The Honorable Douglas H. Bosco
Chairman, Subcommittee on
  Public Buildings and Grounds
Committee on Public Works
  and Transportation
House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

I thank you for affording me the opportunity to testify before the subcommittee on May 9, 1990, regarding the renovation and control of the Pentagon.

Enclosed please find my answers to the questions that I was asked to provide for the record. If there are any additional questions that the subcommittee might have, please contact Chris Brady of the Office of Congressional Affairs. He can be reached on 501-3956.

Sincerely,

Richard G. Austin
Administrator

Enclosures

QUESTIONS FOR THE RECORD, CONGRESSMAN PETRI - PENTAGON HEARING

QUESTION:

The 30-year, net present value comparison between renovation of the Pentagon and construction of a new building shows little difference in cost. Has consideration been given to the construction of a new building?

ANSWER:

Since the present value cost comparison between the construction and the repair and alteration alternatives shows little economic difference, GSA did discuss the option of constructing an entirely new Pentagon rather than renovating the current one. However, there are factors, other than economic ones, to be considered in such a proposal. The Pentagon was constructed in 1943 and, because of its historic and architectural significance, it is considered eligible for the National Register of Historic Places. Such a designation generally protects the property from destruction or impairment. In addition, the Pentagon has historical and symbolic significance as the centerpiece building for the Department of Defense. GSA's position is that replacing the Pentagon would be an infeasible course of action.

QUESTION:

In the past, local officials were opposed to the construction of a 1.8 million square foot Pentagon annex. This project would add over one million square feet of new space. Although this is smaller in scope than the annex, has there been any local reaction to this proposal?

Answer:

The local community has not reacted to the proposed renovation project as of yet.

The Department of Defense expects to award a contract in the near future for the development of a Master Plan for the Pentagon renovation. As part of the Master Plan development, plans for the renovation project will be presented to the local community.

QUESTION:

The leasing of swing space will be necessary during the renovation. How much space, and at what cost, will be required? Is this included in the $1.2 billion estimate?

Answer:

Although some swing space within the Pentagon will be provided by relocation of service functions to the new extension, an estimated additional 500,000 occupiable square feet of swing space will be required for approximately eleven years (10 years of construction within the main Pentagon Building plus one year to move to swing space) for a total of $176 million. The cost of the swing space was not included in the $1.2 billion estimate, but it was included in the economic analysis comparing the relative costs of the alternatives. Based on the rental range approved by the Office of Management and Budget for the fiscal year 1991 prospectus cycle, annual lease costs would be approximately $16 million if all swing space must be provided in leased buildings. Alternative strategies that would include providing some of the swing space in existing Government-owned buildings are also being considered.

QUESTION:

You have cited security precautions as one of the reasons why DOD could better manage the renovation project. Can you elaborate on what these security concerns are?

Answer:

The Pentagon is a secured facility with all security provided by DOD. Access is restricted; visitors, even from another Federal agency, must be escorted while inside the building. This poses a logistical challenge for any construction contract. All construction workers must go through a DOD clearance process. They will be escorted to the work site and may also be observed during their work. Some equipment needed for the construction will also have to be inspected. DOD will prepare a "security perimeter" around the work area. This requires a great deal of coordination among the organization which awards the contract, the security offices, offices in close proximity to the construction, and the contractor.

DOD would perform all these security related tasks. They could prearrange escorts for contract employees, whereas GSA, following its own security procedures, would have to make arrangements between the contractor and DOD security. GSA would be adding its own security requirements on top of the ones DOD already has in place.

QUESTION:

Part of DOD's desire to acquire control of the Pentagon is the lack of attention paid to the building in the past. While I realize that you are not personally responsible, can you tell us how much has been devoted to capital improvements at the Pentagon and why there hasn't been attention paid to the condition of the building?

Answer:

The Federal Buildings Fund (FBF) operates on the principle that charging occupant agencies commercially equivalent Rent will generate a positive balance to the FBF each year that can be applied to capital investments such as new construction, repairs and modernizations. Funding of these capital projects is based upon prioritized requirements throughout the inventory of GSA buildings. It is expected that sometime during the normal life cycle of each GSA building, the capital improvements needed to ensure its preservation and maintenance will be funded from the FBF. Unfortunately, due to constraints on the FBF and the priority requirements for new construction and repair and alteration projects, a comprehensive renovation of the Pentagon has been delayed longer than is desirable.

Nonetheless, from fiscal year 1975 through fiscal year 1990, a total of $38.8 million has been allocated for capital expenditures at the Pentagon complex.

QUESTION:

Apart from the question of whether the Pentagon should be transferred, what are your views on setting up a separate account for the Pentagon project in the Federal Buildings Fund?

ANSWER:

If the Pentagon stays with GSA and the renovation is a GSA project, our preference would be to fund the project within the Federal Buildings Fund (FBF) in the same manner that we fund our other major capital projects, rather than setting up a separate reserve account within the Fund. Although the project has a greater total estimated cost than any other GSA project to date, and will require phased funding over a number of fiscal years, we believe that it could be accomplished through the current budgetary process. Furthermore, if additional appropriations were needed in any future fiscal year to offset any significant shortfall between Pentagon income and costs, we would be able to identify that requirement in our budget request.

QUESTION:

Mr. Austin, while confident of your personal commitment, DOD has been concerned about the long-term commitment of GSA over the 17-year repair project and then continued upkeep in the future. Do you believe a separate account as envisioned in H.R. 4726 would be a permanent answer to those concerns?

ANSWER:

The concept of the Federal Buildings Fund, as originally enacted, envisioned that GSA would be able to allocate available funds in excess of operating expenses to those capital projects with the highest nationwide priority. It was intended that the FBF as a whole would develop revenues in excess of its operating and capital investment needs, so that GSA could provide for the construction and acquisition of needed facilities and fund major alterations and repair projects. It was never intended that each building within the inventory would fund its own capital requirements.

The enactment of H.R. 4726 would establish the precedent of committing GSA to making capital decisions based on the ability of a specific building to provide sufficient resources to fund its own capital improvements. While this methodology would certainly address the specific needs of the Pentagon, GSA does not believe that the establishment of specific accounts for specific buildings represents an efficient use of available funds. Without the ability to utilize all available funds where the need for capital investment is greatest, a situation could develop where needed construction and renovation projects for other parts of GSA's inventory would not be accomplished in a timely manner while funds sat idle in specific building accounts awaiting future site specific requirements. This would not be in the best interest of the Federal Government as a whole.

QUESTION:

If the Pentagon were transferred, the Federal Buildings Fund would lose rent paid by DOD. Do you think the effect of this is less than if the Federal Buildings Fund were used to fund the project?

ANSWER:

Based on current estimates, it appears that the loss of rent would be nearly equivalent to the costs of maintaining the facility and funding the renovation project. However, it should be noted that these estimates are based on long range economic assumptions and preliminary design concepts.

Given the length of time necessary to complete this project and the resultant uncertainty that exists in projecting estimated revenues and expenses seventeen years into the future, it is entirely possible that there could be significant changes to the income and expense estimates. Any significant changes could materially impact upon GSA's ability to provide necessary services, including the construction and renovation of facilities for the rest of the inventory.

Therefore, while the effect on the FBF (based on current estimates) appears to be similar whether the facility is transferred or retained, the potential impact on the Fund if the facility remains within the inventory lends support to the transfer.

QUESTION:

In 1987, former Administrator Terry Golden signed a Memorandum of Understanding with the Defense Department which included a statement of support for the transfer of the Pentagon. Can you tell us why that was signed, and if the reasons for signing still exist today?

ANSWER:

When former Administrator Terry Golden signed the Memorandum of Understanding (MOU) with the Department of Defense (DOD) the Pentagon facility was in need of major alterations and renovations. The Administrator recognized that the necessary renovations would create unique security problems and that these renovations would encumber resources of the Federal Buildings Fund for construction and renovation of other facilities in the GSA inventory.

The reasons for signing the MOU in 1987 also support transferring the custody, jurisdiction and control of the Pentagon facility to DOD. Accordingly, DOD should have the sole responsibility of funding and executing the renovation project.

QUESTION:

GSA has presented figures which seem to illustrate that, if GSA continues to collect rent and funds the repair, GSA will make a "profit" of about $186 million when project costs are deducted from anticipated DOD rent over 17 years. Can you elaborate on these numbers?

ANSWER:

The attached chart depicts the projected income and expenses associated with the Pentagon facility over the duration of the renovation project. This chart assumes that GSA could budget for the New Obligational Authority (NOA) in amounts equal to the estimated contract costs for each phase of the project, that Rent rates would increase commensurate with the improvement to the quality of space, and that the project would result in operating efficiencies that would reduce operating costs.

Given these assumptions, it is anticipated that over the life cycle of the project, GSA would generate rent in excess of operating expenses and NOA required to fund the project in the amount of $186 million. However, it must be noted that all of this excess income is generated in the last two years of the project.

Moreover, as mentioned, given the length of time necessary to complete this project and the resultant uncertainty that exists in projecting estimated revenues and expenses seventeen years into the future, it is entirely possible that there could be significant changes to these income and expense estimates.

EFFECT OF THE PENTAGON MODERNIZATION PROJECT ON THE FEDERAL BUILDINGS FUND

(Dollars in Thousands)

Option I All Project Costs Direct-Funded as NOA in the year they are required.

FISCAL YEAR	RENT INCOME			OPERATING BUDGET			CAPITAL	FEDERAL BUILDINGS FUND BALANCE			PROJECT Phase
	Before Project	Project Effect	After Project	Before Project	Project Effect	After Project	Project Budget	Before Project	Project Effect	After Project	
1991	82,772		82,772	38,635		38,635	5,263	44,137	-5,263	38,874	Initiate Design
1992	92,705		92,705	39,987		39,987	5,435	52,718	-5,435	47,283	
1993	96,506		96,506	41,387		41,387	96,100	55,119	-96,100	-40,981	Heating Plant Construction
1994	100,269		100,269	42,835		42,835	108,684	57,434	-108,684	-51,250	Phase I Construction
1995	103,979		103,979	44,334	-2,217	42,117	19,672	59,645	-17,455	42,190	Phase VII Construction
1996	107,618		107,618	45,886	-2,294	43,592		61,732	2,294	64,026	
1997	114,614	-8,929	105,685	47,492	-2,375	45,117	153,763	67,122	-160,317	-93,195	Phase II Construction
1998	118,625	-9,509	109,116	49,154	-2,458	46,696		69,471	-7,051	62,420	
1999	122,777	-3,515	119,262	50,875	-3,561	47,314	197,709	71,902	-197,663	-125,761	Phase III Construction
2000	127,074	-3,637	123,437	52,655	-3,686	48,969		74,419	49	74,468	
2001	131,522	3,012	134,534	54,498	-4,905	49,593	201,855	77,024	-193,938	-116,914	Phase IV Construction
2002	140,071	3,208	143,279	56,406	-5,077	51,329		83,665	8,285	91,950	
2003	144,973	11,104	156,077	58,380	-6,422	51,958	231,665	86,593	-214,139	-127,546	Phase V Construction
2004	150,047	11,826	161,873	60,423	-6,647	53,776		89,624	18,473	108,097	
2005	155,299	21,315	176,614	62,538	-8,130	54,408	200,410	92,761	-170,965	-78,204	Phase VI Construction
2006	160,734	22,698	183,432	64,727	-8,415	56,312		96,007	31,113	127,120	
2007	171,182	49,448	220,630	66,992	-10,049	56,943		104,190	59,497	163,687	Project Completed
TOTAL	2,120,767	97,021	2,217,788	877,204	-66,236	810,968	1,220,556	1,243,563	-1,057,299	186,264	

NOTES:

Fiscal Year - Years shown are from project initiation through the first year after completion.

RENT Income Before Project - RENT payments to GSA assuming the project was not undertaken.

Project Effect on RENT Income - Assumes (1) Income loss while portions of the Pentagon are vacant and under renovation; (2) Additional revenues after the completion of the Logistics extension; (3) Higher RENT created by a 10% improvement in the quality of the space; and (4) Additional income generated by the narrowing of corridors which would create additional rentable space.

Operating Budget Before Project - Amount of New Obligational Authority transferred to DOD each year through the Allocation Account each year for the Operation, Maintenance, and Recurring Repairs to the Facility. Assumes that the project did not occur.

Project Effect on the Operating Budget - Recognizes the reduced Operating expenses resulting from a projected 15% increase in building operational efficiency.

Capital Project Budget - New Obligational Authority to be budgeted by GSA for the Design, Construction, and Management and Inspection of the project (as described in the 11B report). NOA budgeted in an amount equal to the estimated contract costs for each phase.

Federal Buildings Fund Balance - Income less Operating and Capital Budget Amounts

Mr. Bosco. We are about ready to get started on what I have been looking forward to for a long time. The people in the private sector have been telling us time and again that reasons they can offer advice and good suggestions to the Government on our building program. We are going to be building almost $3 billion worth of buildings and we have the opportunity now to call on people who have been in this business for profit and who presumably know how to do it and do it well. I want to thank everyone that has been willing to show up here today to give us this advice.

I call on Mr. Stanley Fineman, who is a partner in the law firm of Wilkes, Artis, Hedrick, and Lane. Mr. Fineman, I will allow you to begin, and as we go along we will introduce the others and hear their testimony.

TESTIMONY OF STANLEY J. FINEMAN, ESQUIRE, LAW FIRM OF WILKES, ARTIS, HEDRICK AND LANE, WASHINGTON, DC; WILLIAM VOSE, PRESIDENT, D.C. BUILDING INDUSTRY ASSOCIATION, AND VICE PRESIDENT OF THE DONOHOE CO., CHEVY CHASE, MD; ROBERT O. CARR, PRESIDENT, OLIVER T. CARR CO., WASHINGTON, DC; ELLEN SIGAL, PARTNER, THE SIGAL/ZUCKERMAN CO., WASHINGTON, DC

Mr. Fineman. Thank you very much, Mr. Chairman and members of the committee. I am pleased to be here with members of the real estate development community of the Washington metropolitan area. We perceive our main purpose in being here as a resource for you. There is a great deal of experience in the private development community represented here. You are embarking on a very difficult and important task and to the extent that we can be helpful to you, we would be pleased to do that.

We have our concerns. They relate to the building versus leasing program. We do believe that there is a place for both in the Federal use of space. There is some concern that the Federal Government would be embarking on a very extensive building program at the cost of leasing. That gives us concern for a number of reasons, the first of which would be the long-term loss of flexibility. When the Government leases space, there is great flexibility in being able to move in and move out as it sees fit. To build a building, there is the potential long-term loss of that flexibility as a particular Government agency enlarges outside the boundaries of its own building. Nevertheless, we recognize that it is not an all or nothing proposition. The Government ought to be building some buildings for itself, it ought to be leasing some buildings.

I would also note that the GSA has gotten very good at leasing. It is the major player as a tenant in the Washington metropolitan area. It does it very well. In my experience, I have looked at GSA leases over the course of twenty years and while obviously the expense of leasing goes up over time, GSA's leases on the average are well below market. And when I say on the average, that is to say they may be at market when they start, but over the course of lease—because GSA negotiates very hard there typically are not bumps in the rents or CPI increases in the rent—the rent drops to below market over the course of the period of the lease. And it has turned out to be quite advantageous to GSA and they have gotten to be quite refined in their methods of negotiating. Of course, in the soft real estate market that we have these days in Washington, they have more clout than ever when they use their savvy.

Those are really my introductory remarks and I would like to introduce other members of the building industry who would be prepared to speak before you. The first one would be Mr. Bill Vose, President of the D.C. Building Industry Association and Vice President of The Donohoe Companies.

Mr. Bosco. Thank you, and welcome Mr. Vose.

Mr. Vose. Thank you. My name is Bill Vose, with the Donohoe Companies, and I have the pleasure of being the President of the District of Columbia Building Industry Association which is comprised of a membership of 300 firms that are involved in the development process in Washington. We are affiliated with the National Association of Homebuilders. Our major function is fostering the prosperous, hopefully unfettered development of Washington and its environs. We deal principally in concerns of the market of issues that transcend individual companies, and we do spend a good deal of time dealing in local regulatory affairs which tend to be high on our agenda.

We certainly appreciate the opportunity, as Stanley said, to be asked to come here to offer you our thoughts. Certainly as our largest landlord, we appreciate the opportunity to give you our views. We respect you and I think asking us here indicates that you respect us.

Before I offer some of my content thoughts, let me offer a couple of thoughts about our industry and how we see our industry here in Washington. Essentially, the development industry here in Washington is mature and we have spent years developing commercial properties of all types and there is quite an able machine here capable of producing product. We have built the buildings both for the private sector and many, many Government buildings. I would suggest that we are an industry that has taken great risks in doing this and we have experienced some of the rewards, some of the average returns, and probably some of us also experienced losses in the development process.

In this process, the entrepreneurial process, we think the industry has a different learning curve than most other professions, and that is that you learn the most by making the mistakes. We feel that as an industry we have got lots of learning here in Washington. We made some mistakes and we can make that be an advantage to the Federal Government.

We also recognize that developing buildings is a rather fine art. It requires great flexibility, great understanding of the local conditions, and it requires a lot of experience. Development of office buildings is not for amateurs.

In conclusion, we think we are the industry that has served this City and the metropolitan area well over the years and we think we have served the Federal Government well as well.

To offer you the broad perspective, I am afraid a lot of what I say are probably blinding bursts of the obvious, but I think they do bear repeating because the issues are very, very large.

The first thing we should do is evaluate just what is the state of the industry today. I would say that as a result of the strength of the Washington market and perhaps the weakness of other markets that Washington, DC is now blessed by the participation of practically all major development firms in the country. They have joined an already impressive stable of local firms, which include the Carr Company, The Smith Companies, my company The Donohoe Companies, and a host of others who have been building Washington for a very long time. There is no shortage in ability to get the job done here and to get it done competitively.

As Stanley mentioned, the Federal Government is a savvy player and as a major tenant you have exercised your clout and strength as a tenant. The Washington, DC marketplace has in excess of 200 million square feet of office space in it now. I would be more precise but it depends on what source you use to do the counting. Of that 200 million square feet, 30 million square feet is probably vacant today. Current economic conditions coupled with this oversupply—and perhaps these two things are inter-linked, I think that may be subject to hearings in other rooms—the posture of the Federal Government is in an enviable position to make very good deals today. I have substantiated views that from an economic standpoint, private sector product at this time will be less expensive product. I grant you that there are always other factors to be considered, but good value is always very persuasive.

Finally, it has been our observation that institutionalized development and building organizations often do not function with the same efficiency as an entrepreneurial bottom line at-risk operation. Our basic position is that the best method for providing for the needs of a majority of the Federal Government's needs is through the private sector. You have been well served in the past and the prospects for a change appear remote. In this regard, we would encourage that the building program grant the widest possible number of options so that a development solution that best suits a given need or location can be implemented.

We recognize that in some instances, whether they be pure size or location, other requirements are best left for the Government. However, even in these instances, we would urge the utilization of the body of talent, knowledge, and experience now available in the Washington area to guide the development and the construction process.

The Federal Government will need to take into consideration the impact on local neighborhoods of its decisions, both the decision to build and the decision to leave affect neighborhoods and communities. We are not wishing on you the plethora of local no growth barricades that we face each day, only that the major economic implications of these relocations and/or locations be taken into consideration. Some neighborhoods have been revitalized around Government buildings and their sudden withdrawal could be devastating.

For buildings well suited to Federal development, we would urge the use of the federally-owned sites such as the Southwest Government Center or other areas seeking development in the District, such as Anacostia. We would suggest that your efforts in this regard be staged so that the space vacated can be absorbed into the market. You are talking about some very large numbers and these dislocations all at one time could be very unstabilizing to communities.

Again, we are concerned about the impact of the surrounding neighborhoods as well as the well-being of the owners. We are uncomfortable with the notion that local property tax avoidance is deemed one of the advantages to Federal ownership programs. While this is clearly a fact, we do not believe that it should be a factor in the decisionmaking. This is one area we are in agreement on with our local Government officials.

We believe the Federal Government would be best served by utilizing the private sector in the process. The experience, talent, and capacity exists to find the most effective and creative solutions to the space needs of the Federal Government.

We are here today at your request to indicate our interest in cooperating with the Federal Government and I believe that is genuine and on-going.

And finally, if the Federal Government wants to own more buildings, now is the time to buy them.

Thank you for the opportunity.

Mr. Bosco. Thank you, Mr. Vose.

Mr. Fineman, did either of the other two witnesses want to speak?

Mr. Fineman. Yes. I would next like to introduce Robert Carr who is the President of the Oliver T. Carr Company.

Mr. Carr. Thank you. Mr. Chairman, members of the committee, it is a real privilege to be with you here this morning. We hope we can give you some insight into how the private real estate companies work and how we can effectively work with you and GSA to house the various agencies that need new space.

The first thing to say is that we are eager to have that good working relationship with GSA and think there are many opportunities that are perfect for consolidations and relocations of the users in the marketplace. One theme I particularly wanted to express today was flexibility and what impacts the different methods of procuring space would have on the interest of private market developers and owners of property to participate in that relationship, thinking of the opportunities to be a tenant, to participate in the lease-purchase, or in the sale of a site.

The central theme of my remarks would be to really encourage GSA and the Government to have flexibility on their procuring side at the same time as the private market representatives would have I think flexibility on their side. The markets have changed a lot over the last 25 years and no private landlord or developer is going to say there is one magic way to construct an ownership position or to enter into a business relationship. They are very interested in housing the various agencies that are in the marketplace as I said, and I think would consider selling property, doing a lease-purchase, or doing a lease. Certainly our company would generically would favor being an owner and participating in a long-term value creation in a particular community, but that would not rule out the majority of properties.

I think the biggest point to emphasize is that we and others would be very interested in being participants in the process. Simply selling land is not really what we are all about and we are very interested in both providing a service to the agency and using our skills and capabilities to help produce a quality building to house them in a very effective way to enhance the agency's ability to do business, and at the same time we are very much involved in creating clusters of buildings that make up a particular neighborhood. We are very interested in having a relationship in managing the design and the quality of construction of the particular project so that it integrates well with the particular community that we're working in and really becomes a positive asset to the other buildings that could follow it and really increases the quality of life available in whatever jurisdiction that we are working. So the fact that we are doing many different projects means that we wouldn't necessarily say it has to be a lease opportunity; it could be a lease-purchase. We probably would favor those over an outright sale, although in many ways the legal ownership becomes something of a technical aspect of it. There could be a purchase and retaining the private sector representative or the developer to in fact still build the space and be a provider of services and help participate in the creation of that quality asset and that quality building. So I would not stress ownership per se or the financial approach as compelling, but rather the dimension that we very much want to be a participant in that process and would look less favorably on an opportunity to simply sell a site and have no further role to play.

Another dimension of that which I think is interesting and is worth noting as you deliberate different aspects of that issue, certainly the location and the quality of construction of the building and how much it is designed to function and house the particular user may have a lot to do with the cost-effectiveness of that particular construction project than the first cost alone. Really the effectiveness of your workforce, the appeal of that location to attract people to come, its proximity to Metro, there could be other dimensions to the cost-effectiveness of a building other than first cost per se.

Another interesting point to make, offered on behalf of a colleague who had to leave for another appointment, is the issue of the real financial competitiveness of those three different approaches. I would say as the financing techniques get more and more sophisticated that in many ways the lease-option and lease-purchase and outright purchase all are becoming somewhat closer together than they might have been ten or fifteen years ago. Particularly in a market environment that is as competitive as it is today with as much excess space as is available, it is hard to say categorically that one approach would be more cost-effective than another. It could be that leasing opportunities in some buildings in fact could be attained at a price that is very competitive with using Government credit directly.

So I would encourage flexibility in the approach. Leave several different options available to you because in fact you could find that given the market environment that you are negotiating in, all of those options could compete very successfully on an economic basis, one against the other. Certainly it seems advantageous to keep the process moving, have the agencies get into the market in the near term where the environment is so attractive and not run the risk of having some properties foreclosed and not available to you next year or the year after that. Since despite the fact the market is softer, there is still a lot of private activity and private deals and new corporations are taking space. So my central theme still is flexibility; look at several different ways to achieve great value. Certainly look at the long term and take advantage of the size and the creditworthiness of these entities in really using that leverage to create the best value for the particular transaction, but keep an open mind to what particular structure—both the business structure and the legal structure—is utilized.

I would be happy to answer any questions. Thanks again very much for the opportunity.

Mr. Bosco. Thank you, Mr. Carr.

Mr. FINEMAN. Mr. Chairman, our last speaker is Ms. Ellen Sigal, who is a partner with the Sigal/Zuckerman Company.

Ms. SIGAL. Mr. Chairman and members of the committee.

Mr. Bosco. Well, we do this phonetically.

My task today is the unhappy task—although I think my colleagues have mentioned it—to talk about the state of the real estate market today in Washington, which is what we categorize as "soft." I would say terrible or lousy, but in any event it is not very good. Just to give you some statistics—and this is a national trend; this is not just in Washington, DC where we are probably better off than the rest of the country—there is currently for delivery in 1990 1.930 million square feet of new office space available. There is also in second generation space 1.432 million square feet. That gives you a total of well over 5 million square feet. Our normal absorption, and it does vary, is about 3 million square feet a year in Washington, DC which means that we have an excess of 2 million square feet if we absorb 3 million square feet this year, and traditionally we absorb about that amount although it does vary from year to year.

What does that mean? What that means is that there are really very good deals available there and that there are many buildings available for GSA that can absolutely fit GSA's requirements and their specifications. Not all of them can, but most of them, and particularly a lot of the newer building can and a lot of the second generations can as well. What that really means is that you couldn't possibly build a building today at your cost, or anyone's cost, and lease that building or buy that building for what it would cost you to generate that building again. We are all expecting returns that are frankly very marginal for all of us.

You have many options available. You have long-term leasing options, 15 or 20 year leasing sometimes. It is something that is anathema to us but it is available in this market to you. You have lease options and options to buy. You have short-term leasing options where if you don't want to commit for 15 or 20 years on space, you can commit for 5 years and 10 years with the predetermined bumps or rates on it so you don't have to be subject to the ravages of the market in 5 years or 10 years when your lease renews. In fact, there are numbers that can be agreed to in advance that give you the flexibility of knowing what your destiny is; and on the other hand, if you chose not to renew, you have that flexibility as well. Those options are definitely available to all of you today. And, again, short-term leasing as well. Sometimes you just can't make commitments for 15 or 20 years and you have that available clearly at a price much less expensive than you could possibly build.

My object today was to talk a little bit about the market, but I would like to talk a little bit about GSA or the Federal Government as a developer, if you might just bear with me for a little bit on this. And, again, I should say that as a private sector developer, we build buildings for the private sector and do have the Government as a tenant in some of our buildings as well. So I know both sides of the coin. I am firmly convinced that the Federal Government cannot build as inexpensively as we can. The development business is an entrepreneurial business when it comes to buying land, when it comes to making decisions, selecting architects—the entire process is one that has to be made in a very timely fashion without a lot of obstacles. The more time, the more obstacles, the more specifications you have, the more affirmative action, the more your requirements of just taking more time to make decisions all equate to money.

We build for GSA. The Sigal/Zuckerman Company is a development firm but my husband is involved in a construction firm and we do a lot buildings for GSA; and as a developer, again, I own buildings that have GSA as tenants. I can tell you there is a premium of a minimum of 15 percent to as high as 40 or 50 percent on GSA requirements and time frames and it is all a matter of the decision-making process and the specifications. So I just want to say in summary that you couldn't possibly—if the objective is cost-effectiveness, and to me the objective as a taxpayer is I want to know that my dollars are not being wasted—you couldn't possibly in my opinion build as cheaply as you can by leasing or leasing with options to buy or frankly buying products existing today.

Thank you. I would be happy to answer any questions.

Mr. Bosco. Thank you, Ms. Sigal.

Are there other people that you would like to introduce.

In trying to summarize what I think I have heard is that among other things you all have a product right now that is in supply, a glut on the market as we say, and we are at the same time embarking on a major building program. Your suggestion is that for part of that we should look to the buildings that we already have. And for those parts that we build, that perhaps we can get a better bargain than we do.

Focusing on the first part of it, we go through a process whereby we approve resolutions. All of us come from different parts of the country. We don't focus so much on Washington, although we live part of our lives here. We tend to rely heavily on what GSA tells us. But I am wondering where you come into this process. Do you come in at the point that simply GSA puts out a proposal and you bid on it, or are you actually able to bid on not doing the proposal and using some building that you own instead? I mean, is there any procedure whereby you can come up with options for us? In other words, can you tell us that instead of building over there why don't you do this? Have you ever been privy to that sort of decision-making because I think that is the kind that would interest us the most.

Mr. **Fineman**. We're hoping that this could be a first step towards that. Really, there is no established procedure for doing as you are thinking. It is really the first idea, and that is the industry reacts to an SFO put out by GSA and has very little knowledge or input, if any, prior to that. So it is a very reactive situation.

Mr. **Bosco**. You would be asked to bid on a certain proposal that has already been developed. You wouldn't be asked to say can this be done any better, or do we not need this building, or what is the best deal the private sector can come up with; that wouldn't be a part of it?

Mr. **Fineman**. There currently is no format, no established procedure for that, nor is there even any informal procedure whereby that occurs. So GSA relies upon the competitive atmosphere in DC. It puts out an SFO and more often than not there is a tremendous response, sometimes there isn't, but a tremendous response because the real estate building industry, other than the political industry, has been the industry in Washington. We don't have heavy industry here.

Mr. **Carr**. Steve, I would like to add, if I could, a slightly different message to that which relates to what I was saying earlier. I find that the GSA representatives are pretty knowledgeable about opportunities in the marketplace and are themselves trying to go through some assessment of what good locations and what cost-effective locations might be. I would almost turn it around and say we would hate to see that process limited by looking at one financing approach as the sole option. By really having the charter of looking at what is the best location, what is the most cost-effective approach, or what may be available in the marketplace today versus what could be built at a different cost; they are going to be more free to find the best answer but that could be lease, that could be lease-purchase, it could be purchase and then build. I think to restrict them to one methodology may preclude them from finding the best and most cost-effective answer available in the market at a given point in time.

Ms. **Sigal**. There is very little flexibility in the process. Normally what happens is the GSA determines they have a space requirement or climate for a building, and when the private sector is brought in they have to really comply with the specifications of GSA and if you don't you are out of the process.

Mr. **Bosco**. Well, specifically, we will be building I think nine or ten buildings in this area. That is what we are dealing with now. In the near future we will be authorizing those buildings to be built. If you were given lists and details about those buildings, would your industry be able to tell us or give us your views on constructing these buildings?

Mr. **Fineman**. There are very strong viewpoints and not necessarily monolithic. I mean, you are hearing from the building industry but each of us has different viewpoints on various aspects, so we don't all agree with each other. But that is definitely correct; there are some projects that are likely to go forward that we feel perhaps could be handled in a different way but haven't really been given the opportunity to speak to that.

Mr. **Carr**. I would just like to add as a footnote that the space that is now available to the Federal Government from the private sector is far better and nicer than it has been in the past. When I think of 10 or 25 years ago, GSA leased strictly low-end buildings and they in effect commissioned low-end buildings in let's say experimental parts of town. That is no longer the case. They have upgraded their locations and upgraded the kinds of buildings in which they would be willing to put their client agencies. I would say probably within the last 10 years you have seen magnificent looking buildings go up, many of them occupied by the Federal Government. So it is not just a matter of how much they are paying, they are getting better quality than they used to get. It is just more available and that is mainly a product of the increased competition among private developers in DC; the product has to be better for all segments of the tenant market.

Mr. Bosco. We had a construction management panel earlier in the year and one of the points that they made was it cost so much more to build any Government building, and Ms. Sigal made that same point. Have you ever quantified this? We have never really had the details of it. Has it ever been quantified to the point where we could look at what the differences are, what we require as opposed to what anyone else would require of a building that you are building, and see if there are indeed foolish or needless requirements that we could either by law or regulation eliminate?

Ms. Sigal. I think it is easily quantifiable and clearly one can look at the specifications and get input on it and what the increased costs would be of the GSA specs. I believe there is already data. I think I have actually read some data. The builders probably have data on that.

Mr. Vose. We can pull that together for you. I am hardly an expert in it but there are even things about size of elevator cabs for Federal Government buildings have to be different from every other building in town, and the speeds at which they move between floors is slightly different. So every time you do a variant you generally add cost. That is just one quick example that comes to mind. But we would be happy to pull that together for you.

Mr. Bosco. I think that we last year indicated that we wanted GSA to use local building codes as best they could but apparently they are not able to or they don't. I mean, I have heard all kinds of horror stories about what you have to do when you are building a Federal project as opposed to what you are building if you are building one for IBM or something. It seems to me that we should have that quantified. Would you be willing to work on that for us? That would be very helpful.

Mr. Fineman. Yes, sir.

Mr. Bosco. Mr. Petri.

Mr. Petri. I would like to thank you, Mr. Chairman, for taking the initiative to have this panel and thank you for coming. I hope it is the beginning of a dialogue between this subcommittee, our staff, and you so that we can all do a better job.

I am trying to understand some of the testimony and I believe it was stated that we have currently about 30 million square feet of space overhang in the market. I think Ms. Sigal said the market generally absorbs about 3 million square feet a year. Obviously, there are different types of uses, so it can be tight in one segment and still——

Ms. **Sigal**. I believe that 30 million is——

Mr. **Vose**. It is the entire metropolitan area she was talking about.

Mr. **Petri**. Were you talking about DC?

Ms. **Sigal**. Yes.

Mr. **Carr**. In the entire metro area and they absorb from 12 to 14 million square feet a year.

Mr. **Petri**. Oh, so the overhang isn't 10 years, it is more like 3 years or so?

Ms. **Sigal**. That's in the entire metropolitan area. In Washington, DC there are 2 million square feet of an overhang, if you assume that we absorb 3 million square feet this year, we have in excess of 5 million available in 1990 for lease.

Mr. **Petri**. If there were no additional construction, they just completed projects underway, it would probably take two or three years for the market to become tight again, is that about right?

Ms. **Sigal**. Correct. And in spite of this difficult market, there are projects that are starting construction.

Mr. **Petri**. I know some of the banks, if you read the papers, are trying to signal to each other to stop signing loan contracts because they are worried that they are going to get in trouble.

Ms. **Sigal**. They are all giving us a hard time right now. That's another issue.

Mr. **Vose**. They are more than signaling. The signal has been delivered.

Mr. **Petri**. I guess that answered part of my next question which was where the overhang was. Could you give us a feeling for what the market rate rent is on a square foot per year basis now in the downtown area, or say the Pennsylvania Avenue, Connecticut Avenue corridor for standard commercial office space? What would it be on a five year or ten year lease?

Mr. **Carr**. There is a big range depending on location. I would say in the heart of the downtown corridor you are probably in the low $40s per square foot. It may go down to the high $30s and perhaps even below $30 in some very fringe areas. I would say in general terms high $30s to low $40s.

Ms. **Sigal**. That would be for new first generation buildings. There are secondary locations that I believe you can lease for in the low $30s, and that's space value. Now in second generation buildings, rehab buildings, the cost could be as low as $25 or $20, but that is base rent. What you have to take into consideration is the free rent, which could be as high as 18 months depending on the term of the lease, and the concession package, the build outs. So when you talk about rent you can't just look at the face rate, you have to look at effective rent, which is the package.

Mr. **Petri**. And that can be $10 to $15 per square foot.

Ms. **Sigal**. The discount could be as high as 30 percent depending on the building, the location. But the top end building, the Pennsylvania Avenue buildings, you are talking in the mid-$40s, but there are other new buildings that you can lease in the low $30s.

Mr. **Petri**. Well, if someone were to come to you and as a business proposition say they had an idea to build a building with multi-purpose theatres, restaurants and international trade office space, and that the building would be a first class building, so that in order to break even they would have to charge about $90 a square foot per year, would you say that could fly in this market, that people will rent space at that price?

Mr. VOSE. I would say move it to Manhattan and cut it by 50 percent.

Mr. PETRI. You are thinking even at $45 a square foot in this location you might have trouble making it go?

Ms. SIGAL. I am just thinking, I am fantasizing about a $90 rent. It would be wonderful news; we would like to all have that. I think that if the location clearly is excellent, then I think the top of the market would be $45 to $50, that's the absolute top of the market, and that again is base rent.

Mr. CARR. It is a little bit of a different issue perhaps though to consider how much of the building's concept has got other priorities in mind in terms of public open space and areas open to the community and efficiency factors that are suited to kind of a public purpose and a private purpose together. If it is solely dedicated to the housing of one agency, efficiently it is not so compelling. But to provide other roles in the downtown, I think you could do it much more cost-effectively. So I think there are issues of use and really hitting two or three purposes simultaneously that very much effect what that rental cost may be. And in a building for one private agency that doesn't accommodate the public or some of these other functions, the building could be more customized exactly to that purpose and be much more cost-efficient.

Mr. PETRI. I realize all of this is just kind of loose questioning, but just for our purposes and guidelines, if you were to go to a bank or an investor with a project of say 500,000 square feet with supposedly multiple uses like this, how much would they request that they have signed up in advance, or would they allow you to just do it? I suppose it would depend on your own financial situation, but assuming you weren't putting any of your own money on the line, you were justifying it on the basis of your leases or the market potential, about what would you feel you would have to have in terms of signed leases? I realize it differs with restaurants and other things, but overall the question is what percentage would you have to have leased or commitments for before you could actually go forward with the project?

Mr. CARR. The answer is very different today than it would have been six months ago. I think in some markets people are having trouble getting financing even on partially leased projects. So it really depends on what market you are in, one that is viewed as being very fragile and risky, even if you are 50 percent leased, you could have trouble getting financing. I would say in a stronger market, 30 to 50 percent would secure it and you could proceed.

Mr. VOSE. As a developer of mix-use projects, one of the complexities is that the more complicated it is, the longer it takes, the harder it is to sit a retailer down two-and-a-half years out and say would you like to sign a lease for two-and-a-half years from now. They just do not have the ability to make that kind of decision and won't unless you can virtually give them the space, then you have a lease that you wouldn't want to take to the bank anyway.

Mr. PETRI. Does the Government currently participate the way Sears Roebuck or other chains do? If you were to have a project and it would be a multiple use project, certainly in this town it would probably be quite useful if GSA would entertain the possibility of signing up as a tenant in a larger project. It certainly would help the quality of life in this community and your ability to develop the kind of things they are talking about in some of these larger multi-residential-government-commercial areas. Do they do that at all now, is there any mechanism for that, or should we think about it?

Mr. VOSE. I think that is part of what we mean when we say you need flexibility because I think there are some great opportunities for that. You see local governments now offering their tenancy as inducement for development proposals. Fairfax County did it; Loudoun County is working on it. I think the Carr Company has recently done something with it in Alexandria, and I'll let Bob tell you about that.

Mr. CARR. Yes. Well, I would give a couple of different answers. First, I would say I think to be looking at maturing opportunities early is a great advantage because certainly GSA can then use their own presence and credit to negotiate a favorable long-term economic package for themselves. There are a couple of different things to be said. One is there may be a particularly good economic opportunity based on how much you might be a catalyst to the growth of an overall project, which is certainly the case in our agreement with the Courthouse in Alexandria where we in fact gave the land to the Courthouse to help mature that property. I would say that is a little bit atypical. We may not discuss that in many other projects.

I also think it speaks to another dimension of the issue which is one to be very thoughtful about, and that is that the major agencies that are going to be relocated could have a very dramatic impact on the different communities that they are located in and I think it could potentially be a very positive one; one that the developers may be able to recognize economically, but also one that may have a very favorable impact on the quality of life in the community itself and also on the quality of life of the people who work at that agency. So you might in fact have a much more motivated workforce, one that can get to work so much more easily, they want to be part of that team, and are really more effective in their jobs because they are at a location where they enjoy being.

So I think there are two or three dimensions to the notion of value for the dollar spent because there is a quality of life issue and productivity issue as well as the simple cost of the building. I think to be thoughtful about getting a reasonable first cost is certainly quite important, but there are also other things that you are effectively buying with your money that I think have to be looked at together. And I think GSA in fact is doing that and are eager to see an impact evaluated both on how it makes a particular community a part of any one of these jurisdictions mature as well as how it could be used as leverage to get a cost-effective long-term space requirement done.

Mr. PETRI. I have many questions, but I think I'll just ask one more. We know there is a catastrophe in many parts of the country in the real estate market right now, and with the savings and loan crisis various Federal agencies are going to be acquiring either non-cash flowing mortgages or actual title to an awful lot of real estate around the country. I know some of you operate in a variety of markets. Do you think it makes more sense to just deal with each area and project in isolation or is there any sense at all in the Government attempting to trade properties in one part of the country for space in another part of the country, so as to meet its own needs without paying for additional buildings but at least helping to facilitate getting some of these buildings back into the market? I guess what I am trying to say is, could you take some buildings in Dallas, for example, and trade them to the Oliver Carr Company in exchange for some stuff in Washington?

Ms. Sigal. You have made me very happy. I don't have to worry about one competitor now.

Mr. Carr. If you would like to answer first, Ellen, please.

Ms. Sigal. I think the people at this table probably really stay in the Washington metropolitan area and I don't think any of us really do go outside of that market, although there are many developers that in fact do that. But I think that real estate is a very local market and knowing the players and knowing the people and the property and the market is really very, very important. So for most people that is not an option. I think that would complicate the problems and add more problems than it would be worth. That is my own sense of it.

Mr. Carr. Maybe I could just add that I think it is a very creative idea and a thoughtful question, but as Ellen said, real estate usually tends to be a fairly local enterprise. Even the nationals tend to be decentralized and have market-base teams who really conduct the business in each particular region. So it is less likely you would find owners who would be willing to trade that far. I think it could be that opportunity may exist from time to time, but it would be hard to be a generic or a big solution. We see that Washington as a marketplace is much healthier than most others in the country and there are fewer failed projects or S&L related projects that are going to be recaptured here. We were really less effected by that than others and are really more steady as she goes. It is a difficult competitive market and there is an excess of space, but some of those conditions that other cities are experiencing don't really quite exist here in the same way.

Mr. Bosco. Mr. Geren.

Mr. Geren. Thank you, Mr. Chairman. Mr. Vose talked about our elevators being built at different specs than the private sector, I think that came as no surprise to anybody using the elevators in the Capitol complex.

Mr. Bosco. They are slower.

Mr. Geren. That's right, slower. That is original that they set it for Longworth, I am only 30 minutes away from a major metropolitan area.

Mr. Bosco. You're ready to move into a new building.

Mr. Geren. Looking at the specs to which buildings are built, the State of Texas and Austin I am sure you are well aware is one of the most over-built markets in the country. The State of Texas has been investigating the acquisition of office buildings in the Capitol complex rather than building new ones and they found two problems. I think they have completed one acquisition but it is not moving as quickly as they would hope. In the two problems that they are finding, one is the configurations of a building that was developed for private sector use, it is hard to make the transition to the sort of space that is generally needed for a Government agency. And the second is—and this may have just been a product of that real estate market—the useful life of the buildings that were built in the private sector were considerably shorter than the time frame for which the State was building buildings. They anticipated in a fairly short period of time they would require extensive renovation or more upkeep than a comparably sized Government building. Where the State was building them to last 100 years, the private sector was building them to last maybe the length of the mortgage.

But those are two of the problems. The first problem really was the configurations were so much different for private sector use than for Government agency use. As you survey this market in a real general sense and perhaps those same kinds of opportunities that we—I don't want to use the word "enjoying" in Texas—that we are suffering through in Texas may present themselves up here, how would you address those two concerns?

Ms. SIGAL. Let me start by saying that indeed there are Government specifications and uses, such as the FCC has a requirement right now for space and they have needs that really could not be accommodated in an existing building and they would have to really build to suit, and they are in the market for it. But there are many Government agencies that really their requirements are not any different than those of the private sector—Justice Department, and on and on—that really basically need office space. Some of the requirements or some of the specifications or some of the needs really I think should be looked at very carefully in terms of cutting costs on it, and existing buildings can be easily adaptable for their use at very competitive prices and even second generation buildings. Now where they have specific requirements for meeting rooms or whatever, then that is a different issue and that probably does have to be built to their requirements. But I suggest that most of the Government requirements for office space really is not any different from any private sector tenant.

Mr. GEREN. I know of one example that they tried to buy a building for the Attorney General's office to expand and there was an office building right across the street from it which had law offices in it, it had a lot of private businesses that you would think would translate very well. As it turned out, the ratio of office space to clerical space in the private sector was very different than it was in the public sector. You house lawyers in the Attorney General's office but they didn't meet with clients and they didn't have the same clerical support, they didn't have the reception areas, they ended up having a whole lot of dead space from the public sector perspective in this office building.

They ended up not choosing it even though the building was primarily a building for lawyers and lobbyist, which you would think would translate very well to the uses of the Attorney General's office, but it didn't. They work with a different clerical support system, their interaction with the public was very much different, and I think that is what defined the use of the space more than anything else. The lawyers and lobbyists had a lot of public contact; the Attorney General's Office didn't. In order to move into that space they would have had to redo the entire interior of that building and it ended up being prohibitively expensive.

Mr. **Vose**. Issues of space configuration generally revolve around some pretty simple things—window line and the size of the plate and how much space do you have away from the window with your clerical support, conference rooms, and areas like that—they are not terribly complex. Generally speaking, professional office people want to have a window and unfortunately clerical functions and other functions get relegated to inside space. It depends on the relative assignments of those needs as to whether a particular floor plan works.

I would like to just address for a second your question of the notion that the public sector could somehow quantify the length of the life of the building and the private sector doesn't. I am real surprised to hear that. We all basically use the same materials, comply with the same codes, and it would really surprise me if someone could really design a building that has the life time of 30 years and then there is somebody who could sit down and design a building that has a life time of 100 years. Again, you are back to the same things—structures and skins. I guess if you used all granite skin it would last forever. Virtually all the materials we use are high quality, tested, no surprises any longer. I think determining life spans by ownership is probably a very imprecise science.

Mr. **Carr**. I might add that having the philosophy of building and leasing and owning for the long-term might affect the quality of the building. Even though uniformly the quality in our marketplace has probably increased dramatically in a pretty consistent way over the last ten years, that is another dimension of the explicit priorities of the purchaser in entering into that tenant or buying relationship, to say that I want a building that really maximizes its useful life and gives me good value for my dollar rather than just the cheapest possible price for a fixed ten or fifteen year option. So even though I think the quality range is much more consistent and is high throughout our market than it used to be, if you really know that quality for the dollar is your target rather than just necessarily least possible cost, you may engineer it a little bit differently and building in useful life of your systems a little bit longer than otherwise. We certainly are building for the long term, so I think there is a lot of compatibility there that might not exist in other markets. But having that be an explicit purpose and objective up front I think would be constructive.

Maybe just a comment on the user friendly nature of the different buildings. Certainly the vast majority of the public space in our market is lease. So I think there is a lot of transferability, but it is really a tenant-by-tenant or agency-by-agency issue. Some users may have needs for their functioning such as courts or security measures like the Navy that would make their building very atypical and not so readily transferable. So you almost have to look user by user to make that call.

Ms. **Sigal**. In most cases really that is not the case. I mean most of us can and do accommodate GSA as a user with really minor requirements. Different law firms have different requirements and a development business has different requirements than a law firm, yet we all fit into these office buildings with minor changes.

Mr. **Geren**. I appreciate your comments on that. I just was reflecting on the experience that they had down there. As a developer you do try to make buildings that are more appealing and more leasable than perhaps the Federal Government does—more windows perhaps or more views, a number of the things that make you competitive with your developer across the street. Some of those may or may not be well adapted to some agency uses as a building previously designed. I know it is hard to generalize about any particular building or the field of buildings that might be available out there. I certainly hope that as a committee of this Congress we do explore some of these options for saving money. Certainly the State of Texas is learning right now it can save a great deal of money by buying rather than building. But those have been two of the problems they have run into. Mr. Vose, you mentioned granite skins. I am not suggesting that a construction skin would have a different useful life in the hands of a private developer rather than the State, but in the Capitol complex in Austin, for example, granite is what the Government builds all their buildings out of. It is very expensive and none of the private buildings around there have granite skins. So that is what they were comparing it to specifically, it was granite to these alternative construction modes. As they looked down the life of those buildings, they anticipated more cost with the privately constructed than they did with these that did have all granite surface construction.

I appreciate your comments. Thank you.

Mr. **Bosco**. Thank you. I think everyone is probably ready for lunch now. Let me ask one quick question. We are building the Southeast Federal Center, as I think you all know, and the city intends to put the subway down there and everything else. We have already had one agency, EPA, tell us that they don't want to be a pioneer agency—whatever that might mean—and as a result I think they have been liberated and are now searching for their own housing in Washington, presumably at fairly high cost. I get the feeling that we don't do things as you would. Mr. Carr, if you were to take a site like the Southeast Federal Center right there along the river with the subway coming in, would you just go one building at a time and kind of figure out well who is going to be here this year and not worry too much about three or four years from now, or would you really develop that whole thing all at once, get an idea for the entire proposal?

Mr. **Carr**. I think that is somewhat of a difficult challenge. I share the Government's let's say frustration or difficulty in putting that together easily. I think it relates to what I was saying earlier about the quality of life issue. Certainly I would approach it in a very complete way, trying to do a whole master plan, trying to see what mixture of uses could really work together to create a location that ultimately is appealing and is one people enjoy working in and coming to. It is always hard to get that first piece in place when the quality of life doesn't yet exist. I think our Alexandria experience is quite a similar one. But we are trying to get as many different things going as soon as possible to begin to create some excitement and synergy over a brief period of time so ultimately it will be very attractive to private users. That's why we encouraged the court to come in there, we have elderly housing coming in to be constructed soon, we are working on retail and office space and residential all simultaneously. That probably is the biggest challenge in our business is to take a fairly raw piece of ground in what certainly will be viewed as a long-term location but all of a sudden put a little magic into it overnight and that's not easy to do.

Personally, I am a little bit sympathetic to the agencies who may say I don't want to be the first one; I want a quality of life in my environment that helps motivate my people and makes them feel good about coming to work at my agency. The only way to overcome it is to stretch and try to find as many different ingredients to throw into the mix as soon as possible to get that to happen, or maybe customize it to really be ultimately more appealing than another alternative to the type of user who you have targeted. There are some users who are very big on security and they are only going to go to a location that customizes itself to adapt to those needs. Others that are more the free market tenant who could exist in many different locations in a somewhat similar configuration I think are going to be digesting that issue of quality of life. It is a difficult challenge.

Mr. Bosco. But if you just built one building at a time, don't you really foreclose a lot of that possibility of the magic and the putting things together to where they all work?

Mr. Carr. That's probably the toughest way to do it and the most risky.

Ms. Sigal. But it is a chicken and egg situation. Absolutely, Bob is right, you clearly have to have a plan and a mix of uses. I think that is very important because people want to know where they can eat, people want housing in many instances, so clearly a master plan is extremely important. But if you do the first building in isolation, that is problematic. On the other hand, if you build a whole complex and don't have the users ready for it, that is economic fiasco. So it is a very difficult challenge and we all deal with it on a daily basis and there are no easy answers. But clearly a master plan and mix of uses have to be a part of it, but the saving has to be very creative but it is the most difficult challenge.

Mr. Bosco. You all represent some of the biggest developers in Washington. Have any of you been asked about the Federal Center, what you think about what it should look like or what could go in around it? Have you offered your advice on that?

Mr. Carr. We have certainly seen some plans in southwest and I think of the Center as well. My impression is that it has been well conceived up till now. I think there are some good people working on it so I think there are a lot of quality ideas going into it. I guess the next step probably is the toughest one and that is how do you get the minimum number of early users or other uses, as Ellen said, to make it a place where people want to be. I can't say I have that answer off the top of my head.

Mr. Bosco. Well, thank you very much. We really appreciate your time and the information has been very useful. I think that we will try to establish a way of keeping in contact with you on these issues.

Mr. **Fineman**. We would like that. Please feel free to call upon the people who spoke or the building industry in general.

Mr. Bosco. Thank you. We will be glad to receive their comments.

[Mr. Fineman's prepared statement appears on page 106.]

Mr. Bosco. I would particularly like to see either you or a group that you might designate help us earlier on in these procedures when we go over the real decisions over whether we are going to build something or whether we are going to lease it. I don't think it is probably too late either for the buildings that we even are planning now to maybe get some of your thoughts on them. We deal with real problems. Now we have got nine or ten real buildings that we will either authorize or not authorize and if you have a better idea for those, we would like to hear it right now because otherwise the horse will be out of the barn, as they say.

Thank you very much. With that, the hearing is adjourned.

[Whereupon, at 12:14 p.m., the subcommittee was adjourned, to reconvene at the call of the Chair.]

PREPARED STATEMENTS OF WITNESSES

STATEMENT OF

RICHARD G. AUSTIN

ACTING ADMINISTRATOR

GENERAL SERVICES ADMINISTRATION

BEFORE THE

SUBCOMMITTEE ON PUBLIC BUILDINGS AND GROUNDS

HOUSE COMMITTEE ON PUBLIC WORKS AND TRANSPORTATION

MAY 9, 1990

GOOD MORNING, MR. CHAIRMAN, AND MEMBERS OF THE SUBCOMMITTEE. THANK YOU FOR THE OPPORTUNITY TO APPEAR BEFORE YOU REGARDING THE PLANS TO TRANSFER CUSTODY AND CONTROL OF THE PENTAGON AND PROVIDE FOR ITS RENOVATION AND MODERNIZATION. I WOULD LIKE TO BEGIN BY BRIEFLY SUMMARIZING THE EVENTS OF THE PAST TWO YEARS AND THE RENOVATION AND MODERNIZATION PROJECT PROPOSED FOR THE PENTAGON COMPLEX. THEN I WILL DISCUSS H.R. 4726 WHICH WAS INTRODUCED LAST WEEK.

THE PENTAGON IS A UNIQUE AND HISTORIC STRUCTURE. IT WAS BUILT DURING WORLD WAR II IN AN UNPRECEDENTED AND MASSIVE CONSTRUCTION PROJECT. DUE TO ITS HISTORIC AND ARCHITECTURAL SIGNIFICANCE, THE PENTAGON IS CONSIDERED TO BE ELIGIBLE FOR THE NATIONAL REGISTER OF HISTORIC PLACES. TODAY, ALTHOUGH THE BUILDING IS STRUCTURALLY SOUND, IT NEEDS MAJOR RENOVATIONS TO UPDATE ITS MECHANICAL, ELECTRICAL AND PLUMBING SYSTEMS, RELIEVE OVERCROWDING, AND RECONFIGURE SPACE TO MEET THE DEPARTMENT OF DEFENSE'S ORGANIZATIONAL REQUIREMENTS. THE PENTAGON IS A VALUABLE REAL PROPERTY ASSET, AND BOTH THE DEPARTMENT OF DEFENSE AND GSA ARE COMMITTED TO ENSURING ITS PROTECTION AND PRESERVATION.

LAST YEAR, IN THE CONFERENCE REPORT ACCOMPANYING PUBLIC LAW 101-189, THE DEPARTMENT OF DEFENSE AUTHORIZATION ACT FOR FISCAL YEAR 1990, GSA WAS INSTRUCTED TO CONSULT WITH DOD AND SUBMIT A DETAILED PLAN FOR THE COMPLETE RENOVATION OF THE PENTAGON.

BY SEPARATE ACTION OF THE HOUSE PUBLIC WORKS AND TRANSPORTATION COMMITTEE, ON NOVEMBER 17, 1989, GSA WAS ALSO DIRECTED TO SUBMIT A REPORT OF BUILDING PROJECT SURVEY, COMMONLY KNOWN AS AN "11(B) REPORT", REGARDING THE NEED AND FEASIBILITY OF REPAIRING AND ALTERING THE PENTAGON TO MEET THE LONG-TERM NEEDS OF THE DEPARTMENT OF DEFENSE.

IN RESPONSE TO THE DIRECTION OF CONGRESS, GSA WORKED CLOSELY WITH THE DEPARTMENT OF DEFENSE TO DEVELOP A COMPREHENSIVE PLAN FOR THE PENTAGON RENOVATION PROJECT. WE FUNDAMENTALLY AGREE ON THE ESTIMATED COSTS AND SCOPE OF THE PROJECT. AS OUTLINED IN OUR REPORT, WHICH WAS SUBMITTED IN MARCH, WE HAVE DEVELOPED A PROPOSAL FOR NEW CONSTRUCTION AND RENOVATION. IT IS THE POSITION OF GSA AND THE DEPARTMENT OF DEFENSE THAT THE 11(B) REPORT FULFILLS THE REQUIREMENTS FOR SUBMITTING A "DETAILED PLAN".

I ASK PERMISSION TO SUBMIT FOR THE RECORD BOTH THE 11(B) AND A PENTAGON RENOVATION CONCEPT PAPER.

BRIEFLY, THE PROPOSAL CONSISTS OF THREE PARTS:

THE FIRST PART PROPOSES THE CONSTRUCTION OF A NEW SERVICE BUILDING AS AN EXTENSION TO THE PENTAGON. THIS WOULD PROVIDE A 450,000 SQUARE FOOT EXTENSION TO ALLOW THE CONSOLIDATION OF LOGISTICS SUPPORT ACTIVITIES (SUCH AS PRINT SHOPS AND LABORATORIES) NOW HOUSED IN THE PENTAGON ITSELF. LIGHT INDUSTRIAL FUNCTIONS AND MOTORIZED VEHICLES WOULD BE ELIMINATED FROM THE MAIN BUILDINGS, AND LOADING DOCKS WOULD BE REMOVED FROM THE SOUTH FACE OF THE BUILDING. THE EXTENSION WOULD BE CONNECTED TO THE PENTAGON BUILDING BY UNDERGROUND TUNNEL, AND COULD ALSO BE ACCESSED AT GROUND LEVEL.

THE SECOND PART OF THE PROPOSAL ADDRESSES THE RENOVATION AND MODERNIZATION OF THE PENTAGON BUILDING ITSELF. THIS WORK WOULD BE ACCOMPLISHED IN FIVE PHASES, EACH INVOLVING THE COMPLETE RENOVATION OF ONE CORNER WEDGE OF THE PENTAGON BUILDING. COMPLETELY NEW ELECTRICAL, HEATING, VENTILATION, AIR CONDITIONING AND LIFESAFETY SYSTEMS WOULD BE INSTALLED. IN ACCORDANCE WITH MODERN OFFICE STANDARDS, ELEVATORS AND ESCALATORS WOULD BE INSTALLED TO REPLACE THE SYSTEM OF RAMPS NOW IN THE BUILDING.

THE RENOVATION OF THE PENTAGON BUILDING WILL ALSO MAKE AVAILABLE MORE THAN ONE MILLION ADDITIONAL OCCUPIABLE SQUARE FEET IN THAT BUILDING THAT CAN BE USED AS OFFICE SPACE. A PORTION OF THAT SPACE WILL BE USED TO ALLEVIATE OVERCROWDING IN THE PENTAGON, AND THE REMAINDER WILL BE USED TO HOUSE DEFENSE ACTIVITIES NOW LOCATED IN LEASED SPACE. IT IS EXPECTED THAT THE RENOVATION AND MODERNIZATION PROJECT WILL ALLOW 3,000 TO 5,000 ADDITIONAL EMPLOYEES TO BE HOUSED AT THE PENTAGON.

THE THIRD PART OF THE PROPOSAL ADDRESSES REPLACEMENT OF THE EXISTING HEATING PLANT. AT THE SAME TIME THE PENTAGON IS RENOVATED AND MODERNIZED, NEW CHILLED WATER AND STEAM GENERATING EQUIPMENT WILL BE INSTALLED. THE NEW PLANT WILL BE ABLE TO ACCOMMODATE THE FUTURE REQUIREMENTS OF THE DEPARTMENT OF DEFENSE.

GSA RECOMMENDS THIS THREE PART PROPOSAL TO MEET THE LONG-TERM REQUIREMENTS OF THE DEPARTMENT OF DEFENSE, WHICH ALSO ENSURES THE PRESERVATION AND ENHANCEMENT OF A VALUABLE REAL PROPERTY ASSET OF THE FEDERAL GOVERNMENT.

WITH REFERENCE TO HR 4726, THE PROPOSED LEGISLATION WOULD REQUIRE THE GENERAL SERVICES ADMINISTRATION TO RENOVATE THE PENTAGON BUILDING AND COMPLEX. TO FUND THE PROJECT, THE BILL WOULD

ESTABLISH A SEPARATE, RESERVE ACCOUNT IN THE FEDERAL BUILDINGS FUND TO BE KNOWN AS THE "PENTAGON RENOVATION ACCOUNT". FUNDING IN THE ACCOUNT WOULD COME FROM THREE SOURCES:

FIRST, RENT AMOUNTS PAID BY DOD TO GSA FOR THE PENTAGON COMPLEX WHICH WOULD BE IN EXCESS OF THE AMOUNTS EXPENDED BY GSA FOR THE OPERATION AND DAY-TO-DAY MAINTENANCE OF THE COMPLEX;

SECOND, FUNDS APPROPRIATED INTO THE PENTAGON RENOVATION ACCOUNT BY CONGRESS; AND

THIRD, OTHER FUNDS WHICH GSA MIGHT TRANSFER INTO THE ACCOUNT.

FUNDS IN THE PENTAGON RENOVATION ACCOUNT WOULD ONLY BE OBLIGATED TO RENOVATE THE PENTAGON COMPLEX, AND THE ACCOUNT WOULD BE TERMINATED 90 DAYS AFTER COMPLETION OF THE RENOVATION.

THE LEGISLATION WOULD ALSO REQUIRE GSA TO SUBMIT ANNUAL REPORTS TO THE CONGRESS ON THE PROGRESS OF THE PENTAGON RENOVATION AND MODERNIZATION AS WELL AS THE STATUS OF FUNDING FOR THE PROJECT.

IT IS THE POSITION OF THE ADMINISTRATION THAT CUSTODY, JURISDICTION AND CONTROL OF THE PENTAGON SHOULD BE TRANSFERRED TO THE DEPARTMENT OF DEFENSE, AND THAT DOD SHOULD HAVE THE SOLE RESPONSIBILITY FOR THE FUNDING AND EXECUTION OF THE PROPOSAL AS OUTLINED IN THE 11(B) REPORT AND HR 4436. THEREFORE, GSA NECESSARILY OPPOSES THE PASSAGE OF HR 4726 AND SUPPORTS ENACTMENT OF HR 4436.

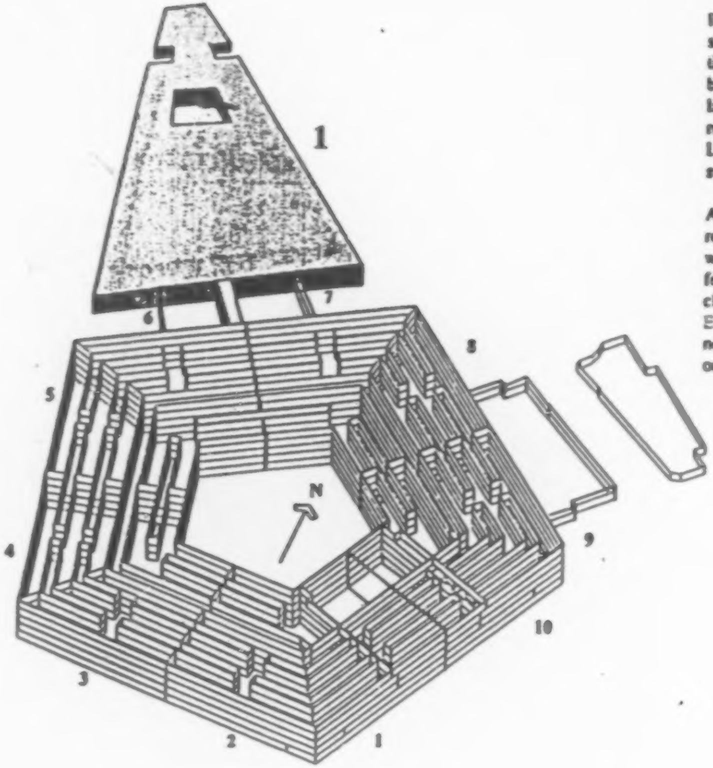
THERE ARE TWO REASONS WHY THE TRANSFER OF THE PENTAGON COMPLEX TO THE DEPARTMENT OF DEFENSE HAS BEEN PROPOSED. FIRST, THE RENOVATION AND MODERNIZATION OF THE PENTAGON BUILDING WILL CREATE UNIQUE SECURITY PROBLEMS, AND THE LOGISTICAL DIFFICULTIES INHERENT IN ANY MAJOR RENOVATION WILL BE COMPLICATED BY THE EXTREMELY HIGH SENSITIVITY OF THE BUILDING TENANTS. THE ADMINISTRATION BELIEVES THAT THE DEPARTMENT OF DEFENSE IS IN A BETTER POSITION TO MANAGE AND CONTROL SUCH SECURITY AND LOGISTICAL ISSUES.

SECOND, THE RENOVATION OF THE PENTAGON COMPLEX WOULD PLACE A SIGNIFICANT DEMAND FOR RESOURCES ON THE FEDERAL BUILDINGS FUND AT A TIME WHEN THERE WILL BE MANY OTHER COMPETING DEMANDS ON THE FUND, SUCH AS THE NEED TO CONSTRUCT ADDITIONAL GOVERNMENT OWNED

FACILITIES. DURING THE YEARS IN WHICH THE PENTAGON RENOVATION WOULD OCCUR, THERE WOULD BE SEVERAL YEARS WHEN RENT INCOME FROM THE PENTAGON COMPLEX WOULD BE INSUFFICIENT TO COVER PROJECTED COSTS.

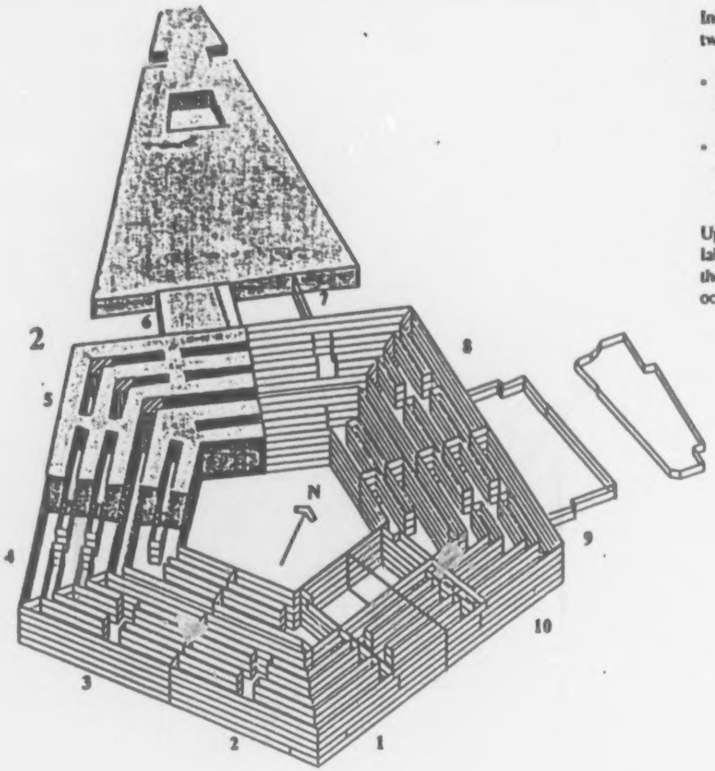
DIVERSION OF RESOURCES FROM OTHER AREAS WOULD IMPACT ON GSA'S ABILITY TO ADDRESS ITS OTHER CAPITAL INVESTMENT OBJECTIVES. THE TRANSFER OF THE COMPLEX TO THE DEPARTMENT OF DEFENSE WOULD ELIMINATE THIS CONCERN.

THAT CONCLUDES MY OPENING STATEMENT. I WOULD BE HAPPY TO ANSWER ANY QUESTIONS THE COMMITTEE MAY HAVE.



Increment One involves construction of the Logistics Support Extension proposed for the Mall Terrace and requires no occupant relocations for construction to begin. The main purpose for this increment being constructed first is to accommodate printing facilities, shops, laboratories, delivery and dock facilities, all ofwhich would be removed from the Pentagon. As an important additional benefit, the Logistics Support Extension would provide 450,000 square feet of swing space for the following renovation increments.

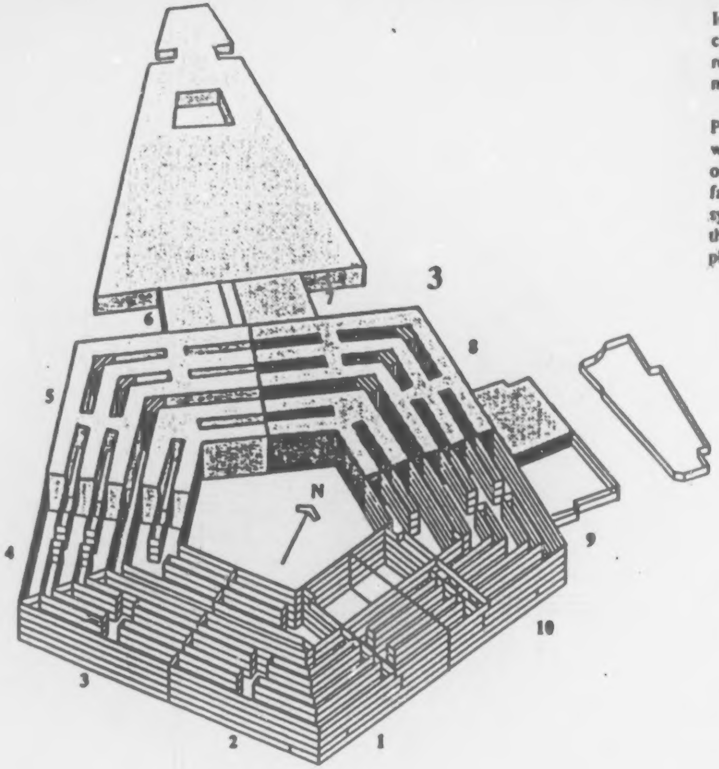
A below grade connector road would tie into the existing interior roadway. Trucks would unload at the new, remote loading docks within the Logistics Support Extension. All goods would be transferred to electric vehicles after a security check. No longer would "uncleared" vehicles enter the complex, greatly enhancing security. Emergency vehicles would still have access to the Courtyard through new security gates. Space remaining beyond the "light-industrial" occupancy requirements would serve as office space.



Increment Two was selected as the first internal renovation area for two reasons:

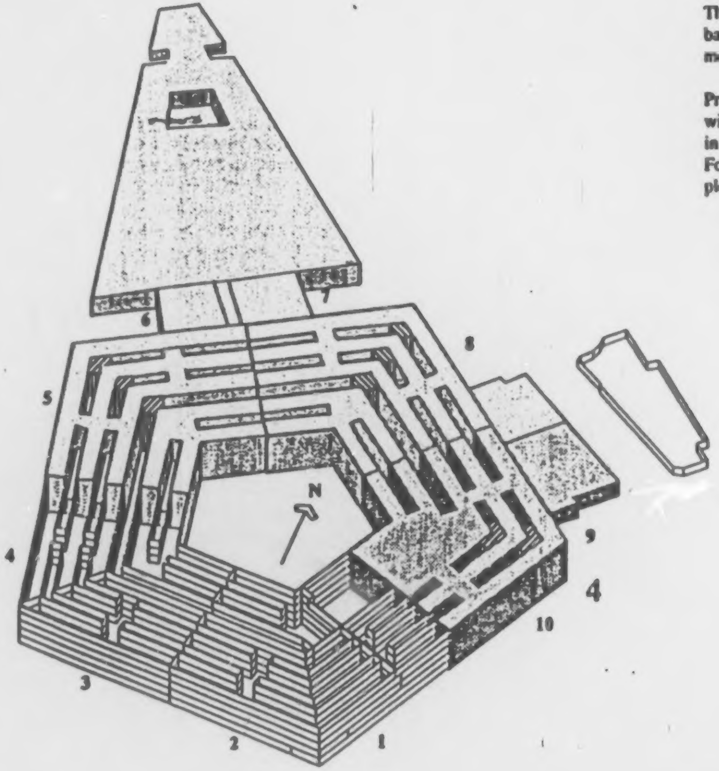
- It has the lowest percentage of occupiable area assigned to special uses (i.e., it is the least disruptive to sensitive areas).
- It is dominated by one large occupant group whose relocation from this area would minimize disruption of overall DoD activities and result in the fewest number of interim moves.

Upon completion of Increment One, the new printing facilities, shops, labs, delivery and dock areas would be occupied. This would make their former locations outside of Increment Two available for interim occupant moves.



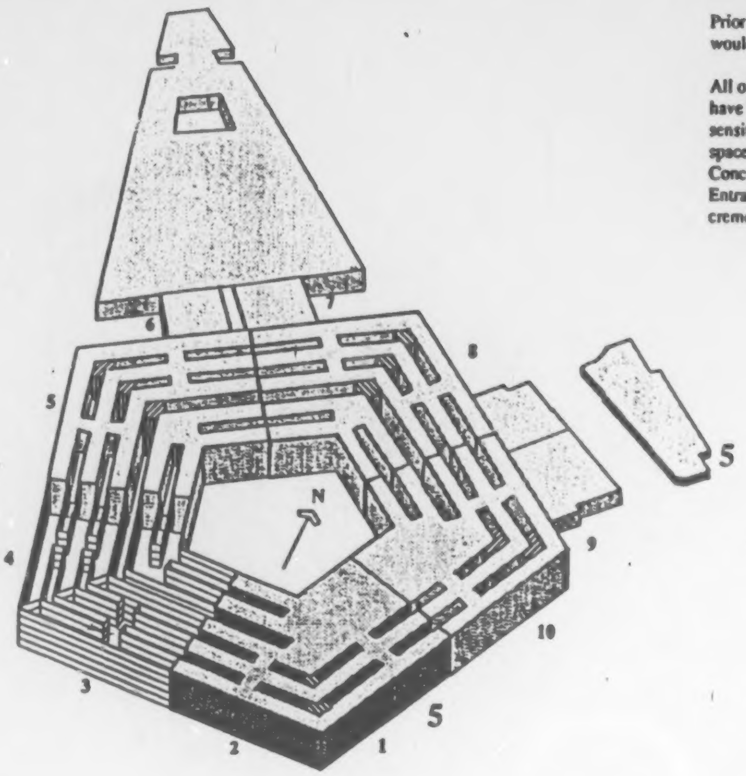
Increment Three includes the partial duplication of secure facilities currently located throughout the Pentagon and within subsequent renovation increments. A similar duplication occurs during Increment Four.

Prior to the start of Increment Three, the first unified major occupant will have moved into Increment Two. This would permanently locate one of the five major occupants in a renovated, vertically integrated facility with total vehicular separation from the pedestrian corridor system. This would make additional in-house space available throughout the Pentagon for the interim moves necessary to completely vacate Increment Three and begin its renovation.



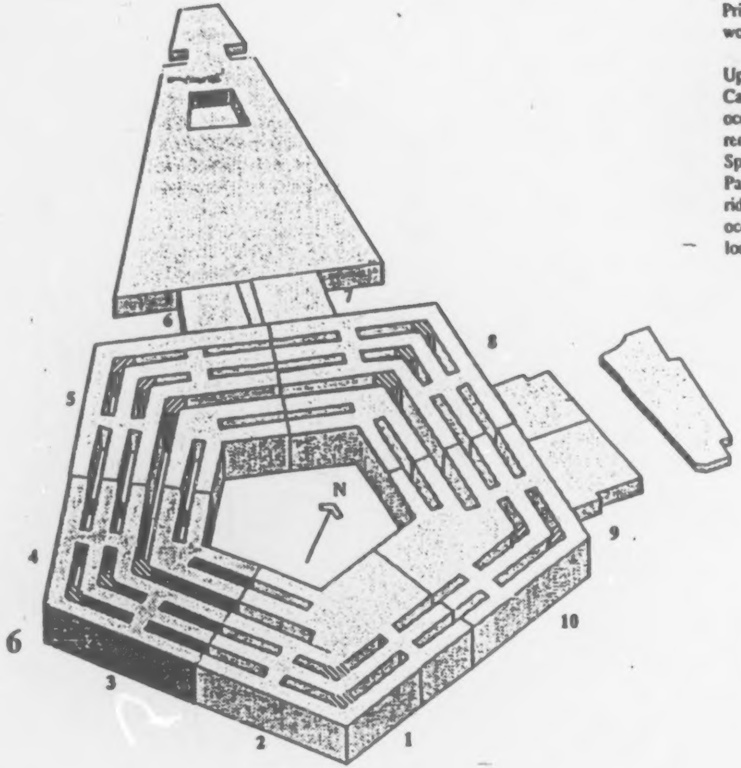
The purpose for the selection of Increment Four next is to permit the balance of secure facilities to be duplicated in-kind during this increment.

Prior to start of Increment Four, the second-unified major occupant will have moved into Increment Three with all the benefits described in the previous increment. The remaining occupants in Increment Four would make the necessary moves within the Pentagon to completely vacate Increment Four, allowing its renovation to begin.



Prior to start of Increment Five, the third unified major occupant would have moved into Increment Four.

All of the Basement and Mezzanine space within the Pentagon will have been completely renovated and most of the Pentagon's security sensitive facilities relocated to new space. Additional occupiable space will have been developed on the Mezzanine level. All of the Concourse and Cafeteria facilities will also be reopened. The Metro Entrance remains open during renovation as it is divided between Increments Four and Five.



Prior to the start of Increment Six, the fourth unified major occupant would have moved into Increment Five.

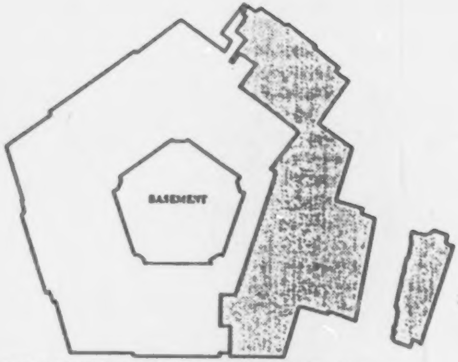
Upon completion of Increment Five, the Metro/Concourse Entrance, Cafeteria facilities and POAC are renovated. The remaining original occupants in Increment Six will complete interim in-house moves to renovated but unassigned space in Increments One through Five. Special construction sequencing will keep interruption on the South Parking Entrance to a minimum and by utilizing new facilities at Corridor Two. Upon completion of Increment Six, the balance of occupants will move into their final assigned, vertically integrated locations within the Pentagon.

Complete development of the available Mezzanine/Basement area is recommended in this Improvement Alternative. Approximately 200,000 additional usable square feet can be added. Located near the bottom of the structure, it is secure space available for sensitive data, equipment and personnel. The majority of the space is ample in height for office use, with the exception of some conflicts with utilities. (Less than one percent of the floor area is affected by the utility lines.) It is possible to improve these potential conflicts by relocating the utilities in question.

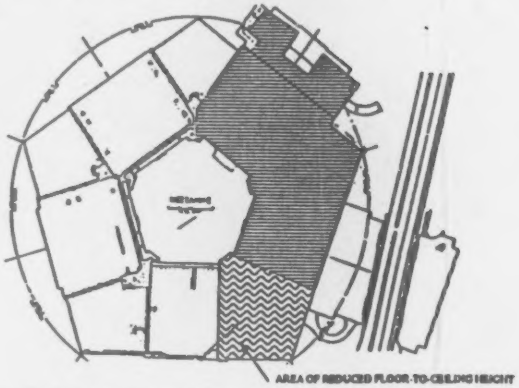
The following summarizes the benefits of this alternative:

- The gain of 200,000 square feet of new space without construction of a new facility.
- The space gained has high headroom, allowing for adequate ceilings and space for utilities to run above.
- The space created is ideal for secure installations as it is free of windows, adjoining public space and access can be readily controlled.

Renovation of this area is recommended to occur in conjunction with the corrections to the sinking or depressed slab areas in the Basement. As the replacement basement slabs will be 'structural' in order to avoid future settlement (i.e., floor loads will be transferred to beams and then to existing piles), the piles will require structural investigation to verify their total capacity. The original design of the building included provisions for the future addition of the mezzanine. (See Section III under Review of Past Studies, Slab Settlement.)



AREAS OF SLAB SETTLEMENT IN BASEMENT



NEW MEZZANINE FLOOR PLAN SHOWING AREA OF NEW SLAB DEVELOPMENT

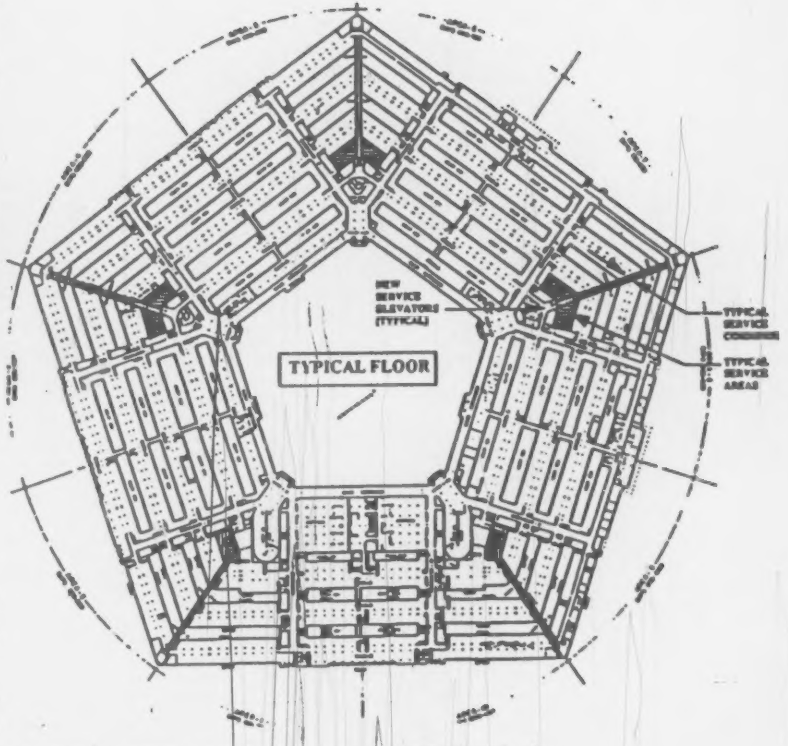
From the examination of Improvement Alternatives 2, Utilization of Light Courts, and 3, Utilization of Interior Roadway, it was apparent that a "backdoor" connection between the office areas and the service elevators would be beneficial and could be easily developed. This would allow a complete separation of service and pedestrian functions.

A service corridor independent of the existing circulation system could easily be created by bridging between the A- through E-Rings at the pentagonal corners as illustrated. This would make it possible to completely separate all pedestrian traffic from vehicular traffic in the Pentagon. By 'reversing' the service elevators (i.e., changing the direction that they open) and creating this delivery spine, all service functions would be central to, and accessible from, each occupant's area. All photocopy rooms, materials storage rooms, etc., could be located along these spines, further reducing trip distances and the need for delivery vehicles. The service elevators would connect to the Interior Roadway, where the transfer of goods or refuse to or from vehicles can occur.

In the event this alternative was selected in conjunction with Improvement Alternative 8, Logistics Support Extension, the delivery carts would actually ride the elevators and continue on to the loading docks in the Logistics Support Extension.

In summary, the benefits of this Improvement Alternative include:

- Separation of pedestrian and vehicular traffic within the building.
- Direct connection between the service elevators and centralized service corridors within each occupant's office area.
- Opportunity to centrally locate functions which require frequent or large deliveries (e.g., copy centers, storage and supply rooms) in the delivery zone within each occupant's area.

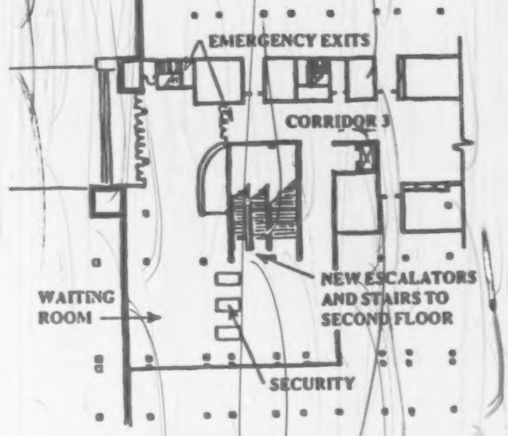


TYPICAL FLOOR PLAN SHOWING SERVICE CORRIDORS

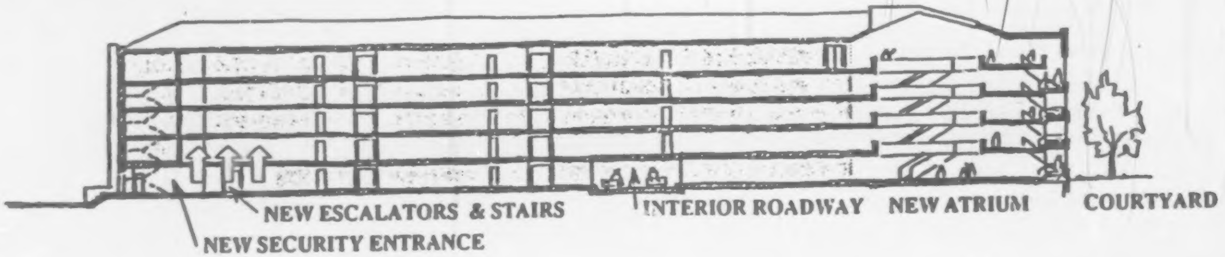
By making the Second Floor the main level for horizontal circulation flow, non-public activities and supply distribution functions can be concentrated on the First Floor. Pentagon personnel and visitors would not cross the Interior Roadway at grade but would pass overhead. This would accomplish improved separation of pedestrian and vehicular traffic. It would also bring Floors Four and Five closer to the main "activity generators" and the main circulation level, minimizing the average "trip" distance within the building.

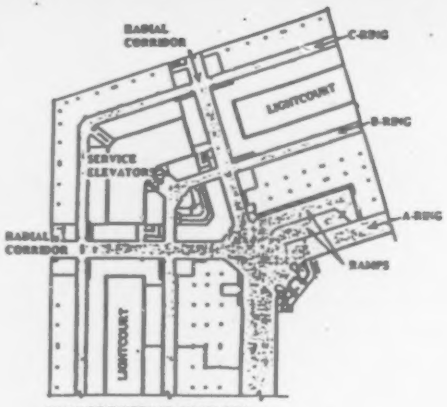
As the accompanying drawings show, new two-story security entrances at Corridors 2, 3 and 8 are recommended in this Improvement Alternative. Once past the new security entrance, escalators would immediately lift personnel to the Second Floor, which would serve as the building's "Main Street" for horizontal circulation. This is the present condition between Corridors 1 and 10 in the Concourse area.

An additional benefit of this Improvement Alternative involves the security of sensitive areas. By concentrating major public access and circulation on the Second Floor and concentrating sensitive or high security areas at and below the First Floor, an improved separation of public and secure space is achieved.

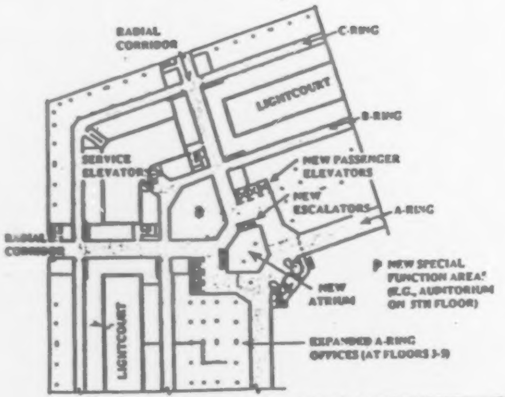

EMERGENCY EXITS
CORRIDOR 3
WAITING ROOM
NEW ESCALATORS AND STAIRS TO SECOND FLOOR
SECURITY

PLAN OF NEW SECURITY ENTRANCE


NEW ESCALATORS & STAIRS
NEW SECURITY ENTRANCE
INTERIOR ROADWAY
NEW ATRIUM
COURTYARD


RADIAL CORRIDOR
C-RING
LIGHTCOURT
B-RING
SERVICE ELEVATORS
A-RING
RADIAL CORRIDOR
RAMPS
LIGHTCOURT

PLAN OF EXISTING 2ND FLOOR
AT INTERSECTION OF RADIAL CORRIDORS


RADIAL CORRIDOR
C-RING
LIGHTCOURT
B-RING
SERVICE ELEVATORS
NEW PASSENGER ELEVATORS
NEW ESCALATORS
A-RING
RADIAL CORRIDOR
NEW SPECIAL FUNCTION AREA (E.G., AUDITORIUM ON 5TH FLOOR)
NEW ATRIUM
EXPANDED A-RING OFFICES (AT FLOORS 3-5)
LIGHTCOURT

PLAN OF PROPOSED ATRIUM/VERTICAL CIRCULATION MODIFICATIONS
AT 2ND FLOOR INTERSECTION OF RADIAL CORRIDORS

One of the primary organizational constraints of the Pentagon is the dependency on horizontal circulation of the building due to the lack of vertical transportation systems (i.e., readily accessible passenger elevators and escalators).

As shown by the following three drawings, this Improvement Alternative addresses this constraint by proposing the following:

- New passenger elevators and escalators at the new atriums (located at the intersection of each pair of radial corridors) will permit quick and easy vertical access between floors.

- Vertical organization and integration of each occupant, clustered around its own vertical circulation system in one of five, 1.2-million square foot blocks. This new vertical organization will eliminate cross-building trips between dispersed offices in each individual Defense Component.

- Horizontal access within the Pentagon becomes a secondary circulation system between occupants. The A-Ring will be the primary horizontal connection between all five atriums and the shortest distance between them. The central courtyard will continue to be viewed from the A-Ring Corridor.

Also located in the atrium area could be the individual occupant support areas. One suggested combination would be:

- Auditoriums and Conference facilities (Fifth Floor)
- Snack bars and Exhibits (Fourth Floor)
- Auditoriums and Conference facilities (Third Floor)
- Snack bars and Exhibits (Second Floor)
- Other special function areas as needed.

GSA **PBS**

REPORT OF BUILDING PROJECT SURVEY
Renovation of the Pentagon
Arlington, Virginia

Report Number: BVA-91W01
Congressional District: 10

INTRODUCTION:

In accordance with a resolution adopted by the Committee on Public Works and Transportation of the House of Representatives on November 17, 1989, the General Services Administration (GSA) has investigated the Federal space situation at the Pentagon complex. This report presents and evaluates a 3-part proposal comprised of renovation and new construction: (1) renovate and modernize the Pentagon, (2) construct a new service building as an extension to the Pentagon, and (3) replace the existing heating plant with a new plant.

COMMUNITY PROFILE:

The Pentagon is located in Northern Virginia, one of the three major political jurisdictions of the National Capital Region (NCR). Included in this area are Arlington, Fairfax, Loudoun, and Prince William counties, as well as the independent cities of Alexandria, Fairfax and Falls Church.

In 1987, the total population of Northern Virginia was 1,041,500, up 14.6 percent from its 1980 population of 909,000. Fairfax County is the most populous, largest in land area, and the fastest growing of the Northern Virginia jurisdictions. From 1980 to 1988, its population increased 25 percent to 746,600. Arlington County's 1989 population is 160,321, a 5 percent increase from 1980.

The Department of Defense (DOD) houses over 66,000 personnel in 10.2 million square feet of GSA-controlled space in Northern Virginia, the majority being in Arlington County. Because the majority of DOD is, and has traditionally been, located in Northern Virginia, the remainder of this report will focus on that community. DOD is the only agency described in detail.

COMMERCIAL SPACE DATA:

Northern Virginia has experienced major commercial office development which is heavily concentrated in certain areas. This has been accompanied and enhanced by the extension of the Metrorail system and by the completion of Interstate 66, west of the District.

COMMERCIAL SPACE DATA: (Cont'd)

Concentrated development in Arlington County has occurred in the Crystal City, Rosslyn, Ballston, and Clarendon areas, all of which are served by Metrorail. Fairfax County, in addition to Metro-related growth, has had extensive development along major roadways and crossroads, especially the Tysons Corner area and along Route 50 and Interstate 66. Alexandria is projecting increased development in its King Street Metro station area.

Although the Washington metropolitan area as a whole has a high leased space absorption rate, vacancy rates in Northern Virginia have ranged from 15 to 21 percent in suburbs near the city, with a 41 percent vacancy rate in the more distant Loudoun County.

Higher vacancy rates do not, however, automatically offer opportunities for GSA to acquire less expensive leased space. Vacancies frequently occur in smaller blocks of space than are needed to satisfy Federal agency requirements. The rental range for first class office space in fiscal year 1991 is anticipated to be $22-$38 per occupiable square foot, with the higher rates in proximity to Metro and the District.

Northern Virginia houses 20.1 million square feet of space, or 30 percent of GSA's NCR inventory, a 2 percent growth since 1984. It is concentrated in those communities closest to Washington, DC.

FEDERAL SPACE SITUATION:

Sixty-five percent of the Northern Virginia inventory is in 165 leased buildings (see table below). This represents 38 percent of NCR's leased inventory. The remaining inventory is housed in 26 Government-owned buildings, representing 21 percent of the Government-owned inventory. Approximately 1.48 million square feet of the Government-owned space is devoted to warehouse rather than office use.

Northern Virginia	Gov't-owned	Leased	Total
Number of Bldgs.	26	165	191
Occupiable Sq. Ft.	7,047,682	13,081,288	20,128,970
Employees	35,599	68,395	103,994

FEDERAL SPACE SITUATION: (Cont'd)

Within this area, the current ratio of Government-owned space to leased space is 35:65. The current ratio of Federal employees in Government-owned space to those in leased space is 34:66.

Government-owned Buildings and Sites:

Northern Virginia has four Government-owned office buildings of 100,000 occupiable square feet or more. Two of the largest Government-owned buildings are located at the Pentagon complex in Arlington, close to the District of Columbia. These are the Pentagon itself, with 3.7 million square feet, housing DOD headquarters; and Federal Office Building (FOB) 2, with 722,770 square feet, originally built as a warehouse, but now housing Marine Corps and Navy elements. GSA delegated operating authority for the Pentagon complex to DOD on October 1, 1987.

The Pentagon was built in 1942 and completed in January 1943. Because of its historic and architectural significance, it is considered eligible for the National Register of Historic Places. The building needs major renovation to update systems, relieve overcrowding, and to make it adequate for continued use. The Pentagon complex includes a total of 420 acres.

GSA's current assessment is that FOB 2 should not be renovated for long-term office use. Rather, its occupants should be relocated elsewhere. Neither GSA nor DOD have yet developed detailed plans for their future housing, and no funding authority has been requested for this purpose.

There is also a large office complex for the Executive Office of the President in McLean, Virginia. At the Franconia Stores Depot near Springfield, Virginia, GSA controls extensive warehouse space: Building A contains 983,511 square feet of space and Building B has 231,734 square feet of space.

At present, there are two major development areas in Northern Virginia under GSA control. The Pentagon site has potential for future development; however, consideration should be given to the impact of increased density on an already congested traffic corridor. Previous studies of the development of 1.8 - 3.0 million square feet of space at the Pentagon site aroused significant community concern.

FEDERAL SPACE SITUATION: (Cont'd)

The Franconia Depot site includes about 70 acres, of which 64 are usable. It is located near Interstate 95, a heavily traveled roadway. Although a nearby Springfield-Franconia Metro station has been designed, neither it nor the rail line extension has been funded. GSA is conducting a capacity study to explore possible development options at this site. Traffic constraints severely limit site potential for office use.

Leased Space:

In Virginia, GSA leases are concentrated in Crystal City, Rosslyn and Ballston in Arlington; the Skyline Complex in Falls Church; Tyson's Corner in Fairfax; and in Alexandria. There are 40 buildings leased by GSA with more than 100,000 occupiable square feet each.

The J.W. Powell Building in Fairfax County is an office building containing 690,701 square feet. It will revert to Government ownership at the expiration date of the lease in late 1993. It houses the headquarters of the Department of the Interior, U.S. Geological Survey.

AGENCY SPACE REQUIREMENTS:

In NCR, GSA currently houses 75,831 DOD personnel in 11,645,126 occupiable square feet. This does not include military and other facilities owned by DOD. The facilities are dispersed among 126 buildings. Government-owned locations comprise 5,103,563 occupiable square feet and leases total 6,541,563 occupiable square feet. DOD, GSA's largest client in NCR, represents over one-fourth of the personnel and over one-sixth of the space in this inventory.

Approximately 87 percent of DOD's personnel and space in NCR are in Northern Virginia. Arlington County alone has 66 percent of DOD's space and personnel in the region. Alexandria has the next largest holding of DOD facilities. Fairfax County houses most of the remainder of DOD in Northern Virginia.

REPORT OF BUILDING PROJECT SURVEY
Renovation of the Pentagon
Arlington, Virginia

Report Number: BVA-91W01
Congressional District: 10

AGENCY SPACE REQUIREMENTS: (Cont'd)

DOD Northern Virginia	Gov't-owned	Leased	Total
Number of Bldgs.	4	70	74
Occupiable Sq. Ft.	4,547,297 44%	5,672,000 56%	10,219,297
Employees	28,753 44%	37,702 56%	66,455

A very large portion of DOD's leases expire within the next several years. It is expected that rental rates will increase considerably over the current rates as new leases are awarded. In 1977, the average rent paid for leased space occupied by DOD was $6.64 per occupiable square foot. In 1988, the average was up to $18.59. Office space in Northern Virginia in fiscal year 1991 is expected to range between $22-$38 per occupiable square foot.

Navy's approximately 20,000 personnel are housed in 2.4 million square feet in 20 buildings. Nineteen of the 20 facilities are located in Crystal City. GSA is soliciting for approximately 3 million square feet to handle Navy's projected needs.

GSA has current requests from DOD for an additional 891,000 occupiable square feet in new and expansion space in NCR. As noted before, relocation of the tenants from the 722,000-square-foot FOB 2 will also be an issue within the next 10 years.

DOD's Administrative Space Plan for the National Capital Region, submitted to Congress in May 1988 proposed construction of a number of facilities on military installations, in part to relocate elements from GSA leased space. Among these was a new Marine Headquarters at Henderson Hall. This site, under DOD control, is located adjacent to the Pentagon complex. The proposal stated the facility would house those Marine elements now in 261,000 square feet at FOB 2, but no funding has been requested for this project.

Other proposed actions which could directly affect GSA leases are only at the earliest stages of development. A total of 821,000 square feet (including the Corps of Engineers) was proposed to relocate from GSA leased space to DOD-controlled space at

AGENCY SPACE REQUIREMENTS: (Cont'd)

Ft. Belvoir and the Engineering Proving Grounds, but no detailed plans have yet been developed. Although the Corps of Engineers requested funding for their building in the fiscal year 1990 budget, they did not receive approval. Similarly, development of a proposal for a Pentagon Annex has been deferred.

In summary, DOD has a continuing need for an extremely large amount of space in the Washington metropolitan area, and particularly in Northern Virginia. Even if all construction projects noted above were accomplished, DOD would continue to occupy more than 3 million square feet of space under GSA leases. Although future needs are difficult to predict, GSA believes there will be sufficient leased space in the inventory to provide a flexible source of tenants which can be relocated into Government-owned space as future projects are developed.

PROJECT BACKGROUND:

The Pentagon was built in 1942 and has received no major modernization since then, although smaller repair and alteration projects have addressed specific building and occupant requirements. The building provides 3.7 million occupiable square feet from 6.5 million gross square feet, demonstrating an inefficient configuration. Approximately 70,000 square feet of inside parking is excluded from this occupiable area. Constructed of concrete reinforced with steel, with its outer walls faced with gray Indiana limestone, the building consists of five concentric pentagonal rings that are interconnected by 10 spoke-like corridors. In the center of the rings is a 5-acre courtyard. The building has five floors above ground, a basement and mezzanine.

The Pentagon is totally occupied by 25,500 personnel of DOD, mainly the Office of the Secretary of Defense, Joint Chiefs of Staff, the Army, the Navy, the Air Force, and other Defense agencies. These headquarters elements must continue to be located in the Washington area and represent many of the elements having the highest security needs. In addition to offices, there are support facilities including food service, maintenance, communications, medical, recreational, and retail stores.

REPORT OF BUILDING PROJECT SURVEY
Renovation of the Pentagon
Arlington, Virginia

Report Number: BVA-91W01
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PROJECT BACKGROUND: (Cont'd)

Overview: This project concept proposes a modernization and extension of the Pentagon building within a 12-year construction period. It includes replacement of the Virginia Heating Plant to serve the increased capacity of the total facility. The concept represents a joint evaluation by DOD and GSA of work needed to make the building better suited to the tenant's needs for the next 40 years. Additional development is needed before project costs can be refined and all aspects of the proposed concept verified.

Included as integral to the project concept are 1) new construction of an underground service building extension of 450,000 occupiable square feet (osf) and the conversion to office space of that amount in the Pentagon building proper, and 2) an increase in building efficiency through the addition of 500,000 osf by reconfiguration and 200,000 osf by constructing an additional floor on the mezzanine level.

The project has been divided into seven phases:

1) Construction of the new underground light industrial service building which will be connected to the Pentagon;

2-6) Five construction increments to accomplish the Pentagon modernization itself (with concurrent construction of a replacement heating plant); and

7) Concurrent exterior site repairs to the bridges, streets, parking lots, and approaches.

Although some swing space within the Pentagon will be provided by relocation of service functions to the new extension, 500,000 osf of additional swing space will be required to accomplish the modernization project. Such space can most expeditiously be acquired by lease.

1. PROJECT DESCRIPTION: PENTAGON MODERNIZATON AND EXTENSION

The current 1940's vintage office layout and systems will be replaced with modern offices and systems suitable for the changed role of DOD. This approach will completely modernize the

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1. PROJECT DESCRIPTION: PENTAGON MODERNIZATON AND EXTENSION

building with the exception of existing exterior walls. The planned renovation will provide space which is much easier to operate and maintain, flexible enough to respond to the tenant's future requirements, and adaptable to the installation of technological advances in computer equipment and work space environments.

Building efficiency will be improved and office uses improved. The total occupiable area increase for this project exceeds 1,100,000 osf as a result of the space provided by the new building (450,000 osf) and the internal modifications (700,000 osf). Approximately 3,000-5,000 new employees can be accommodated on site by these changes. Some of the new space will be used to relieve overcrowding within the Pentagon.

A. Service Building:

The first portion of the project is the construction of 450,000 osf to consolidate the logistics support activities from the Pentagon. The space vacated within the Pentagon will be mostly converted to office use. The new facility will result in the elimination of light industrial functions and motorized vehicles from the Pentagon proper. It will enable the removal of loading docks from the south face of the building. This extension will not only provide for more efficient use of the Pentagon itself, but even more importantly, will eliminate a major security problem by removing deliveries from the confines of the main building.

B. Pentagon Modernization:

The next five construction phases are the renovation of the Pentagon in sequential increments consisting of vertical wedges of approximately 1,100,000 gross square feet. This approach was selected to reduce construction time and lower the impact on secure facilities. It is deemed to be the optimal configuration and size for construction. This concept minimizes temporary power and heating, ventilation and air-conditioning (HVAC) connections since the building was constructed in the same wedge configurations, and the current building systems correspond to that configuration.

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1. PROJECT DESCRIPTION: PENTAGON MODERNIZATON AND EXTENSION

B. Pentagon Modernization: (Cont'd)

Repair and Alterations:

The five increments have similar construction approaches. Because all new internal systems must be installed, demolition will be slab to slab. In order to install the requisite HVAC, and life safety systems, virtually all of the asbestos-contaminated ceilings and walls will be affected and must be removed. This will be done as the first step of each construction increment. The renovated space can then accommodate tenant requirements that conceivably alter the current space layouts. Cost estimates include the complete build-out of all shell and tenant areas.

The electrical upgrades will include installation of all new electrical service and distribution systems. Emergency lighting, fire protection, uninterrupted power supplies, electrical panels and generator sets will be installed to service the building, and sized for expected DOD requirements for the foreseeable future.

The HVAC system will be entirely replaced. A loop system will be installed to provide 24-hour chilled water service to all three shift components, thus eliminating the numerous package systems. The loop system will substantially reduce the high maintenance and operating costs associated with the existing package systems. The toilet rooms will be upgraded and reduced in number. All new supply and waste piping will be installed. The number of toilets will be reduced, and an estimated additional 50,000 square feet of occupiable space (included under recapture total below) will be gained by these modifications.

Lifesafety Features:

The building will be equipped with a sprinkler system and a reconfigured fire alarm system. These lifesafety features are required to be installed during any major repair project, and will substantially improve safety for the occupants.

1. PROJECT DESCRIPTION: PENTAGON MODERNIZATON AND EXTENSION

B. Pentagon Modernization: (Cont'd)

Reconfiguration and Recapture of Space:

The reconfiguration of DOD's organizational layout from a horizontal to a vertical structure will substantially improve internal circulation and security in the building. Concentrating major public access and circulation on the second floor and concentrating sensitive or high security areas at and below the first floor will provide an improved separation of public and secure space.

An independent service corridor network will be created to improve efficiency of support to the operations. A delivery spine will be created, and all service functions will be central to and accessible from each major area. Support space such as photocopy rooms and supply rooms will be located along these spines. The service elevators will connect to the interior roadway for the transfer of goods or refuse to or from vehicles.

In keeping with current office standards, elevators and escalators will be installed to serve the large employee population. These will support the vertical relocation of DOD's organizations, as well as provide improved general passage throughout the building, served now only by ramps. There are virtually no passenger elevators within the building now.

The elevators and escalators will be clustered around a vertical circulation system in each of the five 1.1 million square foot segments. Also located in these atria will be individual occupant support areas such as auditoriums, conference facilities, exhibits, snack bars and other special function areas as needed.

As noted before, the occupiable square footage of the building will actually be increased by approximately 700,000 osf. The internal modifications include narrowing certain corridors and recapturing space from the reduced number of toilets. Within that total, approximately 200,000 osf will be gained through construction of additional mezzanine area in certain parts of the building.

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JUSTIFICATION: PENTAGON MODERNIZATION AND EXTENSION

A. Service Building:

Construction of the new service building will permit relocation of printing facilities, shops, laboratories, delivery and dock facilities from the Pentagon. Space vacated within the Pentagon will be converted for use as office space. This phase will reduce the swing space requirements by 450,000 square feet, resulting in a substantial avoidance in leased space costs of up to $17,100,000 annually for the subsequent construction in the Pentagon.

The extension project will allow concentration of office uses requiring high security to be within the Pentagon. It will also enable the reconfiguration of space within the Pentagon for improved organizational layout and circulation.

B. Pentagon Renovation:

In 1943, the Pentagon was completed and recognized internationally as an unprecedented achievement in building construction due to its size and speed of construction. Complete replacement of antiquated systems is required in order for the building to continue to serve the needs of DOD. The existing systems are grossly undersized for today's automated offices.

The HVAC systems were not designed to handle today's automated office environment. This contains large heat generators, which must be served by modern HVAC systems sized and configured for the automated environment. Due to the changing nature of the occupants and technological advances, it is possible to reduce the capacity in the heating plant, while the air-conditioning equipment requires almost a doubling in size due to the higher year round load placed on it.

The plumbing services have simply worn out. This project will replace all piping, restore and replace fixtures, and make the rest rooms fully handicapped accessible. Due to the changes in building configuration, it will be possible to reduce the total number of rest rooms and convert the approximately 50,000 square feet of space gained to occupiable area.

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JUSTIFICATION: PENTAGON MODERNIZATION AND EXTENSION

B. Pentagon Renovation: (Cont'd)

Sophisticated computer equipment requires new, efficient, and integrated HVAC systems as well as additional power distribution sources. The current electrical distribution system has exceeded its capacity.

In addition, due to extensive code changes since the building was constructed, major lifesafety system upgrades and handicapped accessibility standards must be retrofitted into the structure.

The change from a horizontal to a vertical structure will allow related organizations to be located in the same proximity. It will result in a reduction of daily inter-office travel time. The recaptured 500,000 occupiable square feet will help relieve severe overcrowding in portions of the Pentagon. Also, the recaptured areas will enable a decrease in future leased space needs, both for swing space and more permanent requirements.

2. PROJECT DESCRIPTION: CONSTRUCTION OF NEW HEATING PLANT

This project proposes a total replacement of the equipment and enclosure of the Virginia Heating Plant, also constructed in 1942. It serves as the supplier of chilled water to the Pentagon and FOB 2, and steam to the Pentagon, FOB 2, and Henderson Hall.

The project will install all new chilled water and steam generating equipment plus auxiliaries, sized to support the load requirements of the renovated Pentagon building. Adequate capacity will be included to continue providing the current requirements at FOB 2 and to meet the committed reimbursable load needs at Henderson Hall. Accommodation will also be made for projected increases in generating capacity necessary to support anticipated DOD requirements in the Pentagon.

The replacement plant will consist of two interconnected enclosures. The first is a 30,000 square foot steam generation/distribution area housing six multifuel (oil and gas) boilers. The second enclosure will be a 28,000-square-foot area for chilled water generation/distribution housing 14 chillers.

2. PROJECT DESCRIPTION: CONSTRUCTION OF NEW HEATING PLANT (Cont'd)

It will also contain the electrical switchgear and emergency diesel generators which provide backup power for vital Pentagon electric loads. The plant administrative offices, support spaces, repair parts storage, maintenance shops, and control rooms will be distributed between the two enclosures.

Because of soil conditions, special (pile) foundations will be used for all structures. The new structures will be located immediately adjacent to the existing main building.

Two 200,000-gallon steel oil tanks will also be constructed, complete with oil containment facilities. A gas line to the site will be provided by Washington Gas Company.

New concrete distribution tunnels separately connecting each load center with the plant will be constructed. New cooling water intake and outfall tunnels will replace the existing undersized facilities. The Columbia Island lagoon, which provides condenser cooling water, will be dredged due to silt buildup.

A new utility tunnel will be constructed between the plant and the Pentagon. The tunnel will house the 24-hour chilled water lines and uninterruptable power sources which are being consolidated in the plant. Backup steam and chilled water piping will also be supplied to provide alternative distribution.

Controlled access to the plant must be maintained for safety and security reasons. All structures will be at least 100 feet from existing state highways. A chain link fence will surround the entire facility, and access will be via a manned guardhouse. Landscaping will be provided to improve the appearance of the area.

Existing site storm drainage, sewage, telephone, water, condensing water, electrical duct banks, natural gas lines and transportation access will be extended, modified, or replaced as necessary to support the new structures and equipment.

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JUSTIFICATION: CONSTRUCTION OF NEW HEATING PLANT

Modification of the existing plant is not a satisfactory solution. The plant has been in continuous operation for more than 40 years, and most of the systems require major replacements and/or upgrades to continue in service. There have been operational difficulties as the HVAC systems have reached the end of useful service life. Additionally, the proposed Pentagon renovation will increase heating and cooling loads due to increases planned for the occupiable area of the building.

Much of the mechanical and electrical systems in the building are original equipment and are obsolete, outdated, and in critical need of replacement and modification.

The refrigeration system currently operates on seven chillers, dating from 1962 and 1978. Major replacement of the internal parts is required to ensure service even in the short-term, and long-term replacement is recommended. At the time of the projected construction completion, the newest of the current chillers would be 18 years old and will require replacement.

To improve operational efficiencies, the Pentagon modernization includes relocation of all 24-hour chilled water and uninterruptable power sources to the Plant. By concentrating supply needs in one centralized location, the energy and operational costs associated with supplying backup power and chilled water on a 24-hour basis can be reduced.

ALTERNATIVES:

Because the Pentagon modernization and expansion, and the replacement of the heating plant, have been studied as elements of an integrated concept, the alternatives have been based on the total cost of the project. The total of these three elements is then compared to the cost of providing comparable space through new construction and leasing. The result of this analysis demonstrates that the 30-year present value cost of the Pentagon renovation, extension and construction of a new heating plant is $3,007,000 less than Federal construction or an equivaluent annual cost advantage of $267,000.

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ALTERNATIVES: (Cont'd)

LEASING - This alternative proposes leasing the space needed to house DOD. The present value cost of this alternative is $1,565,909,000.

CONSTRUCTION - This alternative envisions Federal construction to accommodate the requirements of DOD. The present value cost of this alternative is $1,132,009,000.

REPAIR AND ALTERATION/NEW CONSTRUCTION - This alternative proposes the modernization of the Pentagon and the construction of an extension and new heating plant. The present value cost of this alternative is $1,129,002,000.

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PRELIMINARY FUNDING ESTIMATES:

1. PENTAGON

Work Categories:

Demolition	$189,082,000
Temporary Mechanical and Electrical Mods	18,386,000
Site Work	17,438,000
Exterior/Enclosure Repair	21,419,000
Interior Structural Modifications	79,413,000
Shell Mechanical/Electrical	196,875,000
Elevators/Escalators	43,953,000
Shell Interior Construction	121,692,000
Tenant Interior Construction	257,435,000
Estimated Construction Cost	$945,693,000

(Note: Additional A-E studies are required before recommending final design and construction costs for all aspects of this concept. These costs are preliminary and subject to revision.

2. LOGISTIC SUPPORT FACILITY (New Construction)

Work Categories:

Demolition	$ 4,653,000
Site Work @ Building	12,305,000
Structure	32,815,000
Enclosure	5,203,000
Shell Mechanical/Electrical	13,120,000
Interior Construction	30,969,000
Estimated Construction Cost	$99,065,000

(Note: Additional A-E studies are required before recommending final design and construction costs for all aspects of this concept. These costs are preliminary and subject to revision.

PRELIMINARY FUNDING ESTIMATES: (Cont'd)

Proposed Schedule

Design start	Jan 1992
Design complete	Jan 1994
Construction Award Phase I (Logistics Building)	Aug 1994
Construction Award Phase II (Wedge 1)	Dec 1996
Construction Award Phase III (Wedge 2)	Apr 1999
Construction Award Phase IV (Wedge 3)	Feb 2001
Construction Award Phase V (Wedge 4)	May 2003
Construction Award Phase VI (Wedge 5)	Apr 2005
Construction Award Phase VII (Exterior site work)	Dec 1994
Construction Completion	FY 2007

Funding Requirements

Funding requirements were developed in fiscal year 1990 dollars by construction phase, and escalated by 4 percent, compounded yearly, from fiscal year 1991 through the midpoint in construction for each separate and distinct construction phase. The total duration of the project is expected to require up to 12 years. Funding requirements in escalated construction dollars:

		Construction	Design	Supervision
Phase I	FY1994	$104,715,000	5,435,000	3,969,000
Phase II	FY1997	142,236,000	5,675,000	4,153,000
Phase III	FY1999	184,823,000	7,374,000	5,397,000
Phase IV	FY2001	187,694,000	7,489,000	5,481,000
Phase V	FY2003	217,544,000	8,680,000	6,352,000
Phase VI	FY2005	194,724,000	7,769,000	5,686,000
Phase VII	FY1995	13,022,000	1,046,000	975,000
Costs(Projects 1&2):		$1,044,758,000	43,468,000	32,013,000

Note: Design funding would be required 2 years prior to construction funding for each phase. The estimated durations are based on two shifts of workers on site each working day (i.e. double shifts).

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PRELIMINARY FUNDING ESTIMATES: (Cont'd)

3. VIRGINIA HEATING PLANT (New Construction):

Work Items

Heating Plant	$13,869,000
Cooling Plant	49,906,000
Electrical	10,173,000
Architectural	5,847,000
Structural	4,745,000
Sitework	3,555,000
Classified Waste Incinerator Modifications	1,238,000
Demolition	1,567,000
Estimated Construction Cost	$90,900,000
Estimated Design Cost.	$5,263,000
Estimated Supervision.	$4,154,000

Schedule

Design Start:	December 1990
Design Completion:	April 1992
Construction Start:	October 1992
Construction Completion:	July 1995

Total Costs For Projects 1,2 & 3:

Estimated Construction Costs:	$1,135,658,000
Estimated Design Costs:	$ 48,731,000
Estimated Supervision Costs:	$ 36,167,000
Total Preliminary Estimated Project Costs:	$1,220,556,000

(Note: Additional A-E studies are required before recommending final design and construction costs for all aspects of this concept. These costs are preliminary and subject to revision.

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RECOMMENDATION:

GSA has evaluated the 3-part proposal previously described in this report and recommends it as a viable plan to meet the long-term requirements of DOD and to ensure the preservation of the Pentagon as a valuable Federal asset. This proposal has been given careful and serious consideration by the Administration. It is the position of the Administration that custody, jurisdiction, and control of the Pentagon be transferred to DOD and that DOD have sole responsibility for the funding and execution of the 3-part proposal presented, evaluated, and recommended in this report.

STATEMENT OF NEED:

It has been determined that the above project is a Government need and that the proposed solution is the best method to meet that need within the timeframe required.

Submitted at Washington, DC, on March 8, 1990

Recommended:
Commissioner, Public Buildings Service

Approved:
Acting Administrator, General Services Administration

GSA PBS

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ECONOMIC ANALYSIS

	CONSTRUCTION	LEASE	R&A
DATA: Term used (yrs)	30	30	30
Occupancy Year	1998	1998	2007
Square feet in analysis			
Leased	-	4,850,000	
Government-owned	4,850,000	-	4,850,000
PRESENT VALUE COSTS ($ x 1,000)			
Net, net rent	-	1,146,443	59,251
Construction cost	750,623	-	499,729
Design	43,078	-	25,433
Management and Inspection	21,581	-	16,734
Land	107,962	-	-
Less: Building reversion	(256,833)	-	(234,532)
Land reversion	(34,799)	-	(52,539)
Interim housing	254,149	254,149	461,812
Major R&A	87,487	-	48,093
Tenant alterations	60,179	60,179	36,671
Services & utilities	303,422	303,422	184,899
Property taxes, ins.	101,141	101,141	61,633
Property management	35,399	25,285	20,969
Total tax benefits to lessor	-	16,670	847
Disposition - Building	(220,858)	(220,858)	-
Disposition - Land	(120,522)	(120,522)	-
Total Present Value Cost	1,132,009	1,565,909	1,129,002
PROPOSAL VALUE	1,129,002		
PRESENT VALUE COST ADVANTAGE	3,007		
OR			
EQUIV ANNUAL COST ADVANTAGE	267		

Factors Used (10/1/89 Values):
Net Rent: $32/osf
Operating Cost: $6.00/osf
Construction Cost to Build a New Building: $160/gsf
Land Cost: $107,962,300
Discount Rate: 8%
Parking costs were excluded from all alternatives.

Housing Plan
Pentagon, Arlington, Virginia
(As of January 1990)

	CURRENT						PROPOSED					
	Total OSF	Total PERS.	Office OSF	Office PERS.	Storage OSF	Special OSF	Total OSF	Total PERS.	Office OSF	Office PERS.	Storage OSF	Special* OSF
Defense												
Government-owned:												
Pentagon	3,736,107	25,500	2,856,782	22,758	116,925	762,400	4,436,107	28,675	3,791,035	25,953	58,462	586,610
Service Building	—	—	—	—	—	—	450,000	1,000	135,748	1,000	138,463	175,790
	3,736,107	25,500	2,856,782	22,758	116,925	762,400						
Leased:												
DARPA (1 location)	36,265	241										
DCAA (7 locations)	37,072	337										
DIA (1 location)	160,907	508										
DIS (11 locations)	79,619	531										
DLSA (2 locations)	18,108	130										
OSD (18 locations)	395,000	2,425										
Subtotal	726,971	4,175	588,675	4,175	69,148	69,148	—	—	—	—	—	—
Total	4,463,078	29,675	3,445,457	26,933	186,073	831,548	4,886,107	29,675	3,926,783	26,953	196,925	762,400

Parking: 231 Inside spaces (69,496 osf)
Current Pentagon Office Utilization Rate = 125
Current Leased Office Utilization Rate = 141

Proposed Office Utilization Rate = 125
Office space will be assigned in accordance proposed FPMR

*Special Space Includes:

Laboratory and Clinic	58,640
Food Service	135,238
Structurally Changed	193,149
ADP	209,411
Conference & Training	48,812
Light Industrial	117,150
Total	762,400

Note: The exact breakdown of office, storage, and special space, and of personnel housed within each type of space cannot be determined at this time. Preliminary assumptions are that the 450,000 osf in the new service building will be a mixture of special, storage and office space. All the light industrial and lab/clinic space will move to the service building as well as half of the storage from the main Pentagon Building. An additional 80,000 osf of the service building is assumed to be storage. The remaining square footage is assumed to be office.

STATEMENT BY D. O. COOKE
DIRECTOR, ADMINISTRATION AND MANAGEMENT
OFFICE OF THE SECRETARY OF DEFENSE

BEFORE THE

UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON PUBLIC WORKS AND TRANSPORTATION
SUBCOMMITTEE ON PUBLIC BUILDINGS AND GROUNDS

MAY 9, 1990

Mr. Chairman, members of the Subcommittee, I am pleased to appear before you today and discuss the Administration's proposal to transfer the Pentagon Reservation to the Department of Defense and the status of the plan for the renovation of the Pentagon.

As you know, the Administration, as part of last year's Defense Authorization Act, requested legislation that would transfer the Pentagon to the Department of Defense. This request was deferred, without prejudice, pending the development of a detailed plan for the complete renovation of the Pentagon.

The plan required by the Conference Report on last year's Defense Authorization Act was submitted on March 15, 1990 to the Committees on Armed Services of the United States Senate and House of Representatives. The cover letter submitting the plan by the Acting Administrator of General Services, which I co-signed, stated in part ... "It is the position of the Administration that the Pentagon reservation be transferred to DoD." As an additional note, on February 28, 1990, before this Subcommittee, the Acting Administrator of General Services testified to this effect. The plan (11b Report) was also submitted on March 8, 1990 to the House Committee on Public Works and Transportation.

One compelling reason for the transfer, in our view, rests on National Security. The Pentagon, as the Headquarters of the National Defense Establishment, has numerous SCIF areas, highly classified communication systems, many secure computer operations and the command centers for our world wide operations. Maintaining operations and the security of these functions while the building is being renovated will be a sensitive and difficult task.

It is crucial for the efficient and effective management of an undertaking of the magnitude of the renovation of the Pentagon that stability is maintained, reviews simplified, management layers minimized and a steady funding stream provided. At the present moment, DoD has considerable momentum. We are moving forward with the design effort using the Corps of Engineers as our designated design and construction agent:

Pentagon Renovation

A Concept plan for the renovation has been completed and forms the basis for more detailed studies and analyses.

An Architect/Engineer (A/E) firm has been selected for developmental design (major building systems prototypical design, block heating and air-conditioning loads, prototypical design of office and special areas, establishment of standards and criteria, more detailed swing space analysis, refinement of construction phasing and concept plan, feasibility and design development of the logistics support extension).

This same A/E firm will also serve as the managing A/E for the life of the renovation to ensure uniformity of the design efforts by other A/E firms and to provide continuity throughout the renovation process.

In-house refinement of the recommended concept plan is underway. The adjusted renovation plan and funding profile will be submitted for the next 5 year Defense plan (FY 92 - FY 97).

Our most current thinking on the renovation (not yet reflected in DoD budget plans) is to:

- Construct a logistics support extension out from the Mall Terrace in a northerly direction and depressed below the elevation of Washington Boulevard. This extension may be as large as 450,000 square feet, depending on engineering studies of ground water and other constraints. This proposed extension would house light industrial functions (Defense Printing, shops, Post Office, loading docks and the like) now housed inside the building and will greatly improve the security and environmental conditions of the Pentagon. (Note: Over 150 delivery vehicles come into the Pentagon court yard each working day, thereby, penetrating our perimeter security.)

- The vacated space in the Pentagon would be used as swing space for employees displaced as we clear a wedge of the building for renovation. The use of the vacated space in the Pentagon would significantly decrease the need -and substantial cost- to lease swing space.

- The renovation would then proceed around the building a wedge at a time. The construction duration for the renovation is estimated at eight years with the overall total project duration estimated at eleven years from now.

Heating and Refrigeration Plant

A Design Development study, a third party financing study, and a cogeneration study have been completed. Based on these studies, a new plant constructed by the Government is recommended as the best solution.

A separate A/E firm has been selected to design the new plant; the design contract is under negotiation and an award could be made shortly. The FY 90 Defense budget includes $4 million for design. Construction funding is planned for FY 92 at $63 million.

FY 1991 Budget Request

The FY 1991 Budget includes a request for $10,000,000 in planning and design funds for the renovation of the Pentagon.

Under the DoD plan for the renovation, over a seven year period, Congress will be requested to appropriate from the Military Construction account about $450 million above the amount expected to be appropriated in the operations and maintenance account. This amount does not include upwards of $70 million that may be needed for leased swing space during the renovation. I say "may" because a variety of events yet to be decided upon will eventually determine the amount of leased space required. Examples are: the impact of Defense program reductions, construction of a new Marine Corps Headquarters and consolidation of Navy activities. In the early years of the renovation project, the project will require substantial annual appropriations, approaching $100 million in FY 1995.

Mr. Chairman, I am sure everyone here has heard about the deplorable conditions of the Pentagon (with some of us experiencing them on a daily basis), but I would like to describe briefly for the record a few of the problems with the building.

Conditions at the Pentagon

Even though the Department has paid GSA in the neighborhood of $200 million more than the basic cost of operating, maintaining and protecting the Pentagon Reservation since 1972, GSA was unable, for a number of reasons, to commit additional funds for appropriate standard level maintenance, major repairs or renovation. As a consequence, this 48 year old building is suffering from decades of neglect and impending failure of all internal building systems and sub-systems.

Many building systems have deteriorated beyond the point of economical repair and will require total replacement. None of the major building support systems have ever been replaced or significantly upgraded. The electrical, heating, ventilating and air-conditioning and plumbing systems need to be replaced to ensure services are provided to the building, as well as to bring the systems up to modern standards, and to provide for increasing electrical and HVAC loads. Exterior repairs and window replacement will also be required.

- Heating, ventilation and air-conditioning system has inadequate capacity, is inflexible (has no interior zoning) and major components are badly rusted and corroded.

- Electrical distribution system is outdated, wire closets and panels are overloaded.

- There is no cable management system (communications and personal computers).

- Exterior finish surfaces are in poor condition; steel casement windows won't close, leak air and water.

- Basement on-grade floor slabs have deflected up to 12" out of level.

- Primary office areas cannot be subdivided due to lack of interior air-conditioning zone resulting in inefficient spatial arrangements.

- Hazardous asbestos materials exist throughout the Pentagon in ceilings and in heating and air-conditioning equipment.

Conditions at the Heating and Refrigeration Plant

The heating and refrigeration plant is operational only because of the use of rented equipment.

- All four original coal boilers are inoperable.

- Currently operating with one built-in, oil-fired boiler and three rented boilers. The rental units are costing the government about $1 million per year.

- Currently renting seven, 1000 ton chillers (air-conditioning units) at a cost of $1.2 million per year. The government-owned units are beyond repair, operating at underrated capacities, and are so unreliable as to jeopardize the occupancy of the Pentagon and mission accomplishment of the Defense Department.

Recognizing that a comprehensive plan for accomplishing and funding the multi-year Pentagon renovation project had not yet been developed, the Administrator of General Services on June 12, 1987 delegated to the Secretary of Defense the authority to procure design services for the renovation. Three months later, after discussions with DoD and the Office of Management and Budget, the Administrator formally agreed to support legislative action to transfer the building from GSA.

Mr. Chairman, I am convinced that the transfer of the Pentagon complex from GSA to DoD will result in improved management of the day-to-day operations, maintenance and protection of the Pentagon as well as be more cost effective during the renovation project itself. Specific benefits expected will be:

- Elimination of layers of management and duplicative reviews in GSA.
- Accountability improvement - one fund and one fund manager.
- Audit trail simplified.
- Elimination of debate over which agency pays for what items in the renovation.
- Establishment of multi-year priority controlled by DoD. Renovation not subject to changing priorities and demands placed upon GSA by multiple customers.
- Enhanced National Security: the headquarters of the National Defense Establishment would be under immediate control of the Secretary of Defense.

This concludes my statement. We respectfully request your support for the transfer of the Pentagon Reservation to the Department of Defense and the renovation of the Pentagon. I would be happy to answer any questions you or the members of the Subcommittee may have.

Before the U.S. House of Representatives
Subcommittee on Public Buildings and Grounds

Introductory Remarks of Stanley J. Fineman, Esq.

Mr. Chairman and Members of the Subcommittee:

My name is Stanley Fineman, and as a partner of the law firm of Wilkes, Artis, Hedrick & Lane, I am pleased to be here with members of the real estate development community of the Washington metropolitan area. Let me begin by thanking you for the opportunity you are affording us today to present our views, advice and concerns with respect to the proposed federal building program currently being considered by this subcommittee.

As you know, the federal government, and particularly the General Services Administration, has long exerted a major influence on the real estate market in the Washington metropolitan area. The currently projected federal needs for office and other space in this region clearly indicate that GSA will continue to be a dominant factor in the regional economy throughout the foreseeable future.

The policies adopted by Congress and the GSA with respect to acquisition of required space must be designed and implemented in a manner that will ensure that such procurements are not only economically advantageous to the government, but also offer the federal tenant agencies and GSA the long-term flexibility to accomodate changing space requirements in a manner both consistent with current fiscal constraints and not unnecessarily adverse to the economies, local governments and real estate markets of this metropolitan region.

We have followed the development of the various options currently before this subcommittee with keen interest. To fully address the various issues on which our comments have been sought, before you today are a group of industry leaders whose combined expertise and experience both in real estate development and in working with GSA will, we believe, allow us to provide you with some valuable insight, commentary and suggestions on the specific proposals for the federal building program currently being considered, and on cost-effectively meeting future federal space requirements in the Washington area.

We believe that certain aspects of the proposed federal building program may unnecessarily restrict GSA flexibility in meeting future space needs, result in non-cost-effective procurements of space by the federal government, impose unwanted and potentially excessive service and maintenance costs on GSA and its tenant agencies, result in location of major federal installations at sites not adequately served by public transportation, and have an unnecessarily severe adverse impact on the local governments and real estate markets of the Washington metropolitan region.

I have the pleasure of introducing today Mr. Bill Vose, president of the D.C. Building Industry Association and president of the Donohoe Companies; Mr. Robert Carr, president of the Oliver T. Carr Company; Mr. Ben Jacobs, a partner of JBG Associates;

Ms. Ellen Sigal, a partner of The Sigal/Zuckerman Company; and Mr. Steve Lustgarten, vice president of real estate for the Blake Construction Company.